

Baker Market Update: Week in Preview

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It's a mostly quiet Monday morning that finds bond and stock prices wandering around looking for direction. Kind of like the rest of us. There's little in the way of data news scheduled for today that will alter that aimless tranquility. That might change as the week progresses and we get closer to the first Friday of September and a fresh look at the labor market through the eyes of the BLS.

But before that happens, investors will have to wade through tomorrow's report from the Institute of Supply Management when it is expected to tell us that its Manufacturing Index improved slightly this month to 54.6 from 54.2. Along with that, we'll get a similar read from Markit Services reporting that its manufacturing PMI was unchanged in August at 53.6. Earlier this morning, the Dallas Fed announced that its Manufacturing Index trounced estimates by coming in at +8 in a big turnaround from July's minus 3 when it was only forecast to make it back to zero. Due out tomorrow, Construction Spending for July should show a 1% increase in a turnaround from June's decline of 0.7%. A new report from Wards, also due out on Tuesday, is expected to reveal that Vehicle Sales rose in August to a 14.9M annualized pace from July's 14.52M level.

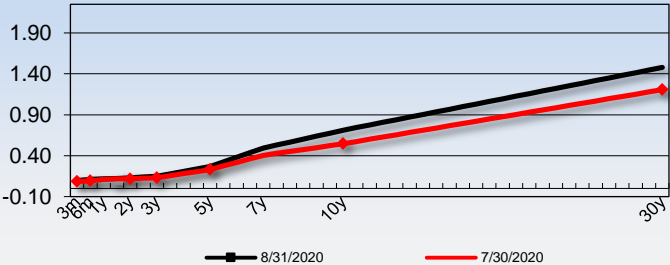
On Wednesday, the ADP Employment Change Report, in what might or might not be a little preview of Friday's BLS report, is forecast to show a Payroll rise of 975k on the heels of July's dismal count of 167k. Some may recall a big divergence between last month's ADP report and the BLS's tally as the two measurements are not that closely correlated. Early estimates of Friday's Non-Farm Payroll total from the BLS are hovering around 1.4M. Factory Orders for July are also due out on Wednesday and a 6% increase is expected in a nice follow-up to June's 6.2% rise. Last week's preliminary report for July's Durable Goods Orders will be finalized on Wednesday and the previously reported 11.2% boost should hold. Likewise, the 1.9% rise in core Capital Goods Orders should also be affirmed. The Fed's regional compilation of conditions around the country, also known as the Beige Book, is due to also come out on Wednesday. In a look back to the second quarter, the BLS is expected to report that Non-Farm Productivity grew at an astonishing 7.5% while Unit Labor Costs soared by 12%. Just remember, there's a whole lot of lockdown-related noise in those numbers.

Lots of noise usually comes with the weekly announcement of the unemployment claims numbers and this week is unlikely to be any different. We are likely to hear that, for the week ending August 29th, Initial Jobless Claims managed to break back through the 1M mark with a weekly total of 950k. Continuing Claims for the week ending August 22nd should show a decrease to 14M from 14.54M. We'll also get Markit's Service Sector PMI that might have slipped just a nudge in August to 54.7 from 54.8. Similarly, the ISM Services PMI probably slipped to 57 this month from July's 58.1.

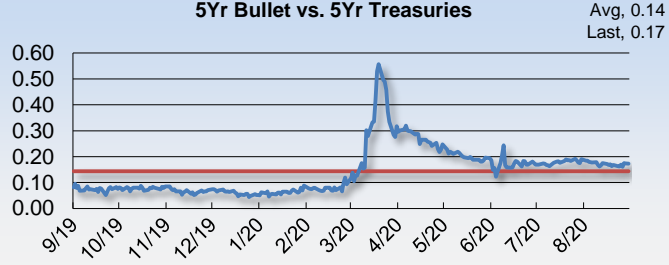
On Friday, along with the expected gain of 1.4M new jobs that the BLS is forecast to report, the Unemployment Rate is expected to fall to 9.8% from 10.2% as the Labor Force Participation Rate shows a much-desired rise to 61.7% from 61.4%. Average Hourly Earnings aren't expected to have changed at all for the month and that might bring the year-over-year growth rate down to 4.4% from 4.8%. More noisy numbers.

For now, Treasuries have recovered their slight early-morning sell-off with the Ten-Year's yield little changed at 71 basis points. The Long Bond has managed to slip back below 1.50%. Gold is up a few dollars to around \$1,969 with crude oil holding steady at just over \$43. Equity prices are still wandering around; probably hoping to stumble across the next stimulus or a successful vaccine. Either will suffice for now. Have a great week; be careful out there.

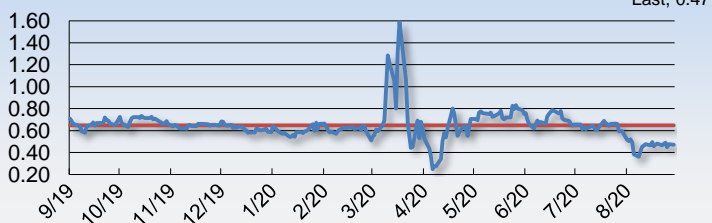
Treasury Yield Curve - Current vs. 1-Month



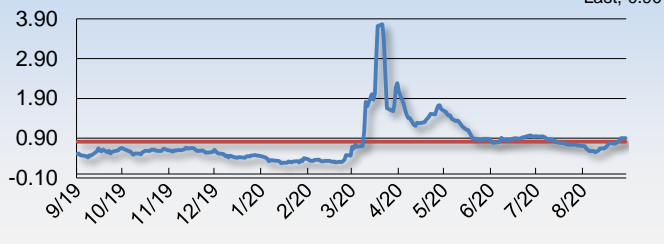
Agency Spreads
5Yr Bullet vs. 5Yr Treasuries



MBS Spreads
FHLMC 15Yr TBA vs. 5Yr Treasuries



Municipal Spreads
10Yr BQ AAA Muni vs. 5Yr Treasuries



Treasury Market -- Historical

Maty	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
3mo	0.10	0.01	0.09	1.28	1.98
6mo	0.11	(0.00)	0.10	1.16	1.87
1yr	0.12	(0.01)	0.11	1.02	1.77
2yr	0.13	(0.02)	0.11	0.92	1.51
3yr	0.15	(0.03)	0.12	0.90	1.47
5yr	0.27	(0.01)	0.21	0.94	1.39
7yr	0.49	0.03	0.38	1.06	1.45
10yr	0.71	0.06	0.53	1.15	1.50
30yr	1.48	0.12	1.19	1.68	1.96

Fixed Rate Market

Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro				
			C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
2yr	0.19	0.22	0.22	0.24	0.22	2Yr	0.18	0.19	0.18	-
3yr	0.25	0.23	0.24	0.25	0.32	3Yr	0.29	0.29	0.20	0.25
5yr	0.46	0.34	0.36	0.39	0.52	5Yr	0.53	0.54	0.55	0.51
7yr	0.69	0.50	0.67	0.72	0.83	7Yr	0.80	0.81	0.82	0.79
10yr	1.07	0.72	1.13	1.21	1.29	10Yr	1.14	1.14	1.16	1.13
15yr	1.46	0.94	1.61	1.71	1.82	September TBA MBS				
20yr	1.85	1.05	1.90	2.03	2.41	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
25yr	2.23	1.09	2.04	2.18	2.47	2.00	0.93	3.9y	1.37	
30yr		1.11	2.18	2.32	2.52	2.50	0.98	3.4y		
						3.00	1.17	2.9y	0.82	2.6y
						3.50	0.99	2.5y	0.72	2.1y
						4.00			0.69	2.1y
						4.50			1.06	2.5y

* Interpolated

Key Market Indices

Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	1.75	2.25
Primary Discount	0.25	--	0.25	2.25	2.75
2ndary Discount	0.75	--	0.75	2.75	3.25
Prime Rate	3.25	--	3.25	4.75	5.25
Sec. O.N. Finance	0.07	--	0.10	1.60	--
1 Month LIBOR	0.16	(0.02)	0.17	1.52	2.11
3 Month LIBOR	0.24	(0.01)	0.27	1.46	2.12
6 Month LIBOR	0.31	(0.00)	0.32	1.40	2.04
1 Year LIBOR	0.45	0.00	0.46	1.38	1.95
6 Month CD	0.29	0.02	0.31	1.30	1.95
1 Year CMT	0.12	(0.01)	0.14	0.97	1.74
REPO O/N	0.09	--	0.13	1.60	2.08
REPO 1Wk	0.09	--	0.13	1.42	2.16
CoF Federal	1.107	--	1.158	1.914	2.260
11th D. CoF (Jun)	0.682	--	0.755	1.036	1.141

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Topeka
3mo	0.28	0.40	0.39
6mo	0.29	0.41	0.43
1yr	0.33	0.34	0.48
2yr	0.36	0.54	0.53
3yr	0.41	0.60	0.60
4yr	0.52	0.73	0.72
5yr	0.61	0.84	0.80
7yr	0.91	1.17	1.08
10yr	1.27	1.55	1.43
5yr Am	0.47		0.76
10yr Am	0.90		1.18

Fed Fund Futures

Maturity	Rate
Aug-20	0.093
Sep-20	0.080
Oct-20	0.075
Nov-20	0.070
Dec-20	0.060
Jan-21	0.055
Mar-21	0.045
Apr-21	0.045
May-21	0.040
Jun-21	0.040
Jul-21	0.035

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
8/31	Dallas Fed Manf. Activity	Aug	0.0	8.0	-3.0	--
9/1	Markit US Manufacturing PMI	Aug F	53.6	--	53.6	--
9/1	ISM Manufacturing	Aug	54.6	--	54.2	--
9/1	ISM New Orders	Aug	--	--	61.5	--
9/1	ISM Prices Paid	Aug	54.3	--	53.2	--
9/1	ISM Employment	Aug	--	--	44.3	--
9/1	Construction Spending MoM	Jul	1.0%	--	-0.7%	--
9/1	Wards Total Vehicle Sales	Aug	14.90m	--	14.52m	--
9/2	MBA Mortgage Applications	8/28	--	--	-6.5%	--
9/2	ADP Employment Change	Aug	950k	--	167k	--
9/2	Factory Orders	Jul	6.0%	--	6.2%	--
9/2	Factory Orders Ex Trans	Jul	--	--	4.4%	--
9/2	Durable Goods Orders	Jul F	11.2%	--	11.2%	--
9/2	Durables Ex Transportation	Jul F	2.4%	--	2.4%	--
9/2	Cap Goods Orders Nondef Ex Air	Jul F	1.9%	--	1.9%	--
9/2	Cap Goods Ship Nondef Ex Air	Jul F	--	--	2.4%	--
9/3	Challenger Job Cuts YoY	Aug	--	--	5.7%	--
9/3	Nonfarm Productivity	2Q F	7.6%	--	7.3%	--
9/3	Unit Labor Costs	2Q F	12.0%	--	12.2%	--
9/3	Initial Jobless Claims	8/29	950k	--	1006k	--
9/3	Continuing Claims	8/22	14000k	--	14535k	--
9/3	Trade Balance	Jul	-\$58.0b	--	-\$50.7b	--
9/3	Bloomberg Consumer Comfort	8/30	--	--	44.3	--
9/3	Markit US Services PMI	Aug F	54.7	--	54.8	--
9/3	Markit US Composite PMI	Aug F	--	--	54.7	--
9/3	ISM Services Index	Aug	57.0	--	58.1	--
9/4	Change in Nonfarm Payrolls	Aug	1390k	--	1763k	--
9/4	Two-Month Payroll Net Revision	Aug	--	--	17k	--
9/4	Change in Private Payrolls	Aug	1300k	--	1462k	--
9/4	Change in Manufact. Payrolls	Aug	50k	--	26k	--
9/4	Unemployment Rate	Aug	9.8%	--	10.2%	--
9/4	Average Hourly Earnings YoY	Aug	4.4%	--	4.8%	--
9/4	Average Weekly Hours All Employees	Aug	34.5	--	34.5	--
9/4	Labor Force Participation Rate	Aug	61.7%	--	61.4%	--
9/4	Underemployment Rate	Aug	--	--	16.5%	--
9/8	NFIB Small Business Optimism	Aug	--	--	98.8	--
9/8	Consumer Credit	Jul	\$13.500b	--	\$8.948b	--
9/9	JOLTS Job Openings	Jul	--	--	5889	--
9/10	PPI Final Demand YoY	Aug	--	--	-0.4%	--
9/10	PPI Ex Food and Energy YoY	Aug	--	--	0.3%	--
9/10	PPI Ex Food, Energy, Trade YoY	Aug	--	--	0.1%	--
9/11	CPI YoY	Aug	1.2%	--	1.0%	--
9/11	CPI Ex Food and Energy YoY	Aug	1.6%	--	1.6%	--
9/11	CPI Index NSA	Aug	--	--	259.1	--
9/11	CPI Core Index SA	Aug	--	--	267.72	--
9/11	Real Avg Hourly Earning YoY	Aug	--	--	3.7%	--
9/11	Real Avg Weekly Earnings YoY	Aug	--	--	4.3%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.5	20.6	23.1	29.1	26.3	10.7
FH/FN 15y	9.9	13.8	41.1	51.2	19.7	19.2
GN 15y	32.3	26.1	27.1	23.9	23.6	22.1
FH/FN 20y	3.6	20.6	27.6	29.5	30.1	22.2
FH/FN 30y	4.2	16.2	33.8	55.5	63.7	56.4
GN 30y	28.2	20.5	24.2	38.2	38.7	33.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.1	18.5	19.4	28.1	22.9	17.8
FH/FN 15y	15.8	20.1	23.2	27.0	18.8	20.5
GN 15y	24.4	13.8	16.5	16.2	14.4	13.4
FH/FN 20y	21.2	21.3	22.4	21.5	21.0	18.0
FH/FN 30y	14.9	21.8	34.3	37.8	36.3	30.9
GN 30y	12.4	16.8	26.1	26.1	28.2	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.97	(0.01)	105.83	108.33	106.24
Euro	1.19	0.02	1.18	1.11	1.10
Dollar Index	92.28	(1.02)	93.35	98.13	98.92
Major Stock Indices					
Dow Jones	28,498	190	26,428	25,409	26,403
S&P 500	3,503.1	71.8	3,271.1	2,954.2	2,926.5
NASDAQ	11,736.7	357	10,745.3	8,567.4	7,962.9
Commodities					
Gold	1,969.2	41.5	1,962.8	1,566.7	1,523.0
Crude Oil	43.02	0.40	40.27	44.76	55.10
Natural Gas	2.50	(0.01)	1.80	1.68	2.29
Wheat	548.5	27.8	531.3	529.0	451.3
Corn	350.5	18.8	316.0	366.5	358.0

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (21% Fed, 0.75% CoF)	
3 S-Corp TEY Muni (29.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

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