

Baker Market Update: Week in Review

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There may not be any Labor Day parades this weekend, but this morning's Jobs Report from the BLS will still give many market observers a cause to celebrate. The big drop in the Unemployment Rate from 10.2% to 8.4% outperformed estimates of a move to 9.8% and was helped by an addition of 1.37M to Non-farm Payrolls. The new jobs count was slightly better than the 1.35M estimate while the total of the prior two months was revised downward by 39k. Another pleasant surprise was the unexpected rise of 0.4% in Average Hourly Earnings. That measure was supposed to be unchanged and helped keep the year-over-year pace of growth at a hard-working 4.7%. Thanks to the government's massive and unprecedented level of support and relief, this is the first recession in which workers' incomes have actually risen. That's pretty parade-worthy. Also, the parade of new workers into the jobs market helped the Labor Force Participation Rate rise to 61.7% from 61.4%. One year ago, the Participation Rate was 63.2%, so we've still got a ways to go. In the meantime, Retail Trade is trying to do its part with the addition of 249k new jobs last month while Professional and Business Services added 197k new positions. Unfortunately, 107k of those were temporary. Education and Health Services added 147k as Leisure and Hospitality Services contributed 174k new jobs. Lots of service jobs. And in what will probably be a surprise to no one, Government jobs accounted for 344k of August's total.

Manufacturing efforts only added 29k new jobs last month, but we learned more about the labors of the Manufacturing sector when, on Monday, the Dallas Fed reported that its Manufacturing Index took an unexpected leap in August to +8 from -3 as forecasters were only looking for a return to zero. That good news was followed up on Tuesday with a very positive report from the Institute of Supply Management in which its Manufacturing Index improved in August to 56 from 54.2 while also beating estimates looking for just 54.8. Within the report, the sub-index of New Orders absolutely blew out the pre-release consensus of 58.8 with a new level of 67.6 that also blew out July's value of 61.5. If idle hands are the devil's workshop, the Manufacturing sector was a pillar of virtue last month. A little less virtuous was a private report from Markit Services indicating that its Purchasing Managers' Index slipped to 53.1 in August from 53.6. There was also no virtue to be found in Tuesday's report showing that Construction Spending rose by a desultory 0.1% in July when a gain of 1% was expected. Still, there were enough non-idle hands to help reverse the direction of June's decline of 0.5%.

We also learned this week that car sales aren't idling with a report from Ward's Automotive that, in August, Total Vehicle Sales grew at a 15.19M annualized pace that blew the doors off of July's 14.5M and also beat survey estimates of 14.9M. The same could not be said for Wednesday's private, ADP Employment Change report that was supposed to tell us that it counted 1M new jobs in August, but instead only counted 428k. Clearly, the BLS is better at counting.

But, it's the Census Bureau that counts up Factory Orders and its count for July rose 6.4%; the same as in June, but that avoided the expected slip to 6.1%. Durable Goods Orders enjoyed an 11.4% growth in July and that was slightly better than the preliminarily reported 11.2%. For core Capital Goods Orders, the July estimate of a 1.9% gain was finalized on Wednesday.

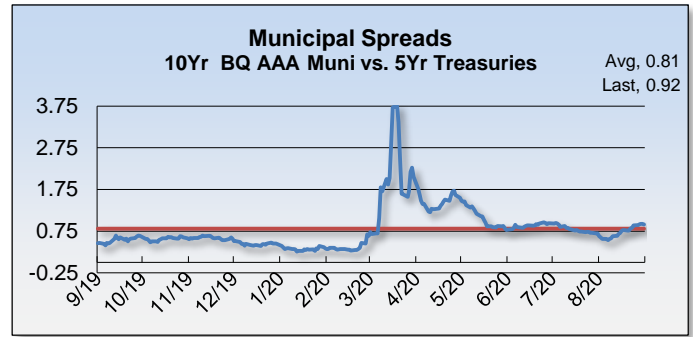
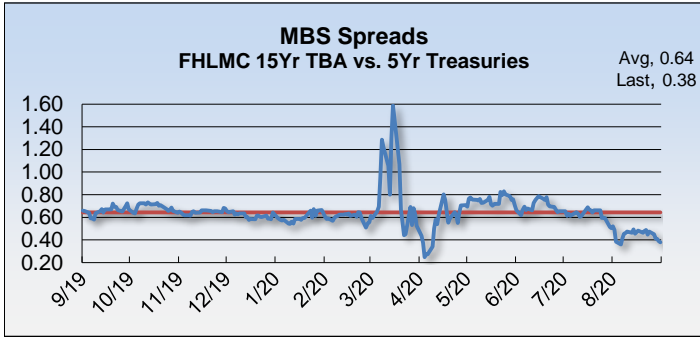
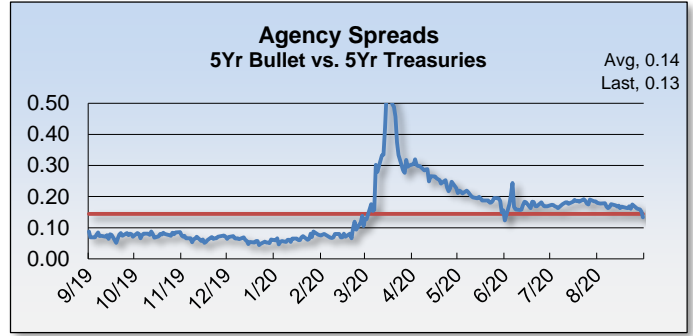
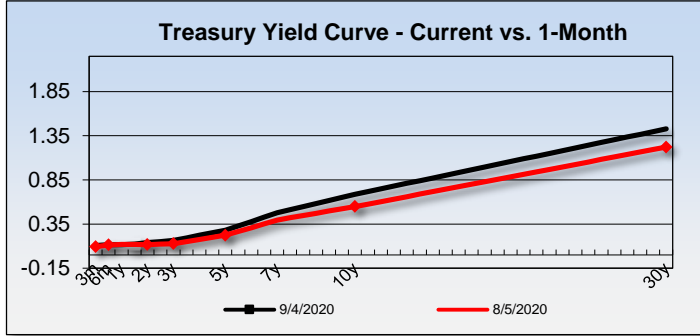
On Thursday, another BLS report showing that Initial Jobless Claims for the week ending August 29th came in below the estimated 950k with a lower total of just 881k. But, a word of caution; the BLS made some changes to the way it makes seasonal adjustments to these numbers due to the brave, new world we're living in and comparisons to previous periods are a little fuzzy. Still, falling numbers are better than rising numbers. Continuing Claims for the week ending August 22nd also managed a fall to 13.25M from 14.49M and that was better than the expected move to 14M. Something that was not better than expected was the growth in the nation's Trade Deficit as it became more deficient in July by another \$10.1B with a move to minus \$63.6B from June's \$53.5B.

Also out yesterday were some new PMI's for the Services sector with Markit's measure moving to 55 from 54.8 while the ISM's Services Index slipped to 56.9 from 58.1. Both are still solidly in growth territory as the effects of the lockdown are gradually becoming undone. Make that very gradually.

Congressional progress on the next relief package is so gradual it's hard to tell if it's progressing at all and that uncertainty has certainly contributed to the substantial sell-off in equity markets as yesterday's retrenchment continues today. Administration officials have hinted at the possibility, if not probability, of a Presidential Executive Order. Also continuing this week was the FOMC's messaging efforts to describe the Committee's newly adopted policy changes in its approach to inflation and employment management. Fed luminaries Richard Clarida, Lael Brainard, and John Williams all paraded around the country this week giving speeches that focused on these changes while also using their podiums to express their caution, concern, and trepidation about the nation's economic future. Yes, things are getting better, but it is clear that our central bankers have serious concerns about the breadth and sustainability of the nascent recovery. On Tuesday, Ms Brainard concluded her remarks to the Brookings Institution with the following statement: "With the recovery likely to face COVID-19 headwinds for some time, in the coming months, it will be important for monetary policy to pivot from stabilization to accommodation." So, we are apparently yet to see what the Fed is truly capable of once it turns accommodative. That's a little scary.

The Treasury market made some turns of its own during the week with the Ten-Year's yield of 70 basis points on Monday falling to 62 basis points mid-week with today's sell-off pushing it back up to around 0.66%. The yield curve steepened during the week as the Long Bond's yield moved well above 1.40% while the short end did little. But, if one thinks that the Fed is going to let long rates shoot up, Mr. Clarida reminded us on Monday in his remarks given at the Peterson Institute for International Economics, the seldom-used tool of Yield Curve Control is still available to the Committee.

But, not this weekend. It's a holiday and there's no better way to celebrate Labor Day than with an encouraging Labor report. Well, a parade would be nice, but, for now, we'll have to settle for firing up the backyard grill. For many shut-in Americans, that's become a labor of love. Have a great weekend; be careful out there.



Treasury Market -- Historical						Fixed Rate Market										
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.11	0.01	0.09	0.72	1.95	2yr	0.18	0.23	0.22	0.24	0.21	2Yr	0.19	0.20	0.20	-
6mo	0.12	0.01	0.10	0.68	1.85	3yr	0.27	0.24	0.24	0.25	0.30	3Yr	0.31	0.32	0.30	0.28
1yr	0.12	0.00	0.12	0.61	1.69	5yr	0.46	0.33	0.38	0.40	0.47	5Yr	0.56	0.57	0.57	0.53
2yr	0.14	0.01	0.11	0.70	1.43	7yr	0.64	0.48	0.69	0.73	0.73	7Yr	0.78	0.80	0.80	0.77
3yr	0.17	0.02	0.11	0.72	1.39	10yr	1.03	0.68	1.16	1.24	1.18	10Yr	1.13	1.13	1.13	1.10
5yr	0.28	0.01	0.19	0.78	1.32	15yr	1.41	0.88	1.62	1.73	1.71	October TBA MBS				
7yr	0.48	(0.02)	0.36	0.94	1.40	20yr	1.80	0.98	1.92	2.04	2.24	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.69	(0.04)	0.51	1.05	1.47	25yr	2.18	1.02	2.06	2.19	2.30	2.00	0.43	2.7y	1.32	
30yr	1.43	(0.07)	1.19	1.70	1.97	30yr	2.18	1.04	2.20	2.34	2.35	2.50	0.32	2.4y		
												3.00	0.40	2.1y	0.80	2.6y
												3.50	0.67	2.2y	0.93	2.4y
												4.00			0.97	2.5y
												4.50			1.32	2.9y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	1.25	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	4.25	5.25
Sec. O.N. Finance	0.10	0.03	0.10	1.64	--
1 Month LIBOR	0.15	(0.00)	0.15	1.36	2.08
3 Month LIBOR	0.25	(0.00)	0.25	1.25	2.13
6 Month LIBOR	0.29	(0.02)	0.31	1.20	2.02
1 Year LIBOR	0.43	(0.02)	0.45	1.15	1.95
6 Month CD	0.32	0.11	0.30	1.07	1.89
1 Year CMT	0.12	(0.01)	0.12	0.73	1.72
REPO O/N	0.14	0.05	0.13	1.15	2.20
REPO 1Wk	0.09	(0.04)	0.09	1.12	2.17
CoF Federal	1.107	--	1.158	1.914	2.260
11th D. CoF (Jul)	0.653	--	0.682	0.984	1.155

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.27	0.41	0.41
6mo	0.28	0.40	0.41
1yr	0.34	0.35	0.45
2yr	0.35	0.53	0.48
3yr	0.42	0.61	0.55
4yr	0.51	0.71	0.65
5yr	0.60	0.81	0.74
7yr	0.88	1.12	1.02
10yr	1.21	1.48	1.35
5yr Am	0.47		0.67
10yr Am	0.86		1.07

Fed Fund Futures	
Maturity	Rate
Sep-20	0.087
Oct-20	0.075
Nov-20	0.070
Dec-20	0.065
Jan-21	0.055
Feb-21	0.050
Mar-21	0.045
Apr-21	0.040
May-21	0.035
Jun-21	0.035
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	8	-3	--
9/1	Markit US Manufacturing PMI	Aug F	53.6	53.1	53.6	--
9/1	ISM Manufacturing	Aug	54.8	56.0	54.2	--
9/1	ISM New Orders	Aug	58.8	67.6	61.5	--
9/1	ISM Prices Paid	Aug	54.0	59.5	53.2	--
9/1	ISM Employment	Aug	--	46.4	44.3	--
9/1	Construction Spending MoM	Jul	1.0%	0.1%	-0.7%	-0.5%
9/1	Wards Total Vehicle Sales	Aug	14.90m	15.19m	14.52m	--
9/2	MBA Mortgage Applications	8/28	--	-2.00%	-6.50%	--
9/2	ADP Employment Change	Aug	1000k	428k	467k	212k
9/2	Factory Orders	Jul	6.1%	6.4%	6.2%	6.4%
9/2	Factory Orders Ex Trans	Jul	--	2.1%	4.4%	4.8%
9/2	Durable Goods Orders	Jul F	11.2%	11.4%	11.2%	--
9/2	Durables Ex Transportation	Jul F	2.4%	2.6%	2.4%	--
9/2	Cap Goods Orders Nondef Ex Air	Jul F	1.9%	1.9%	1.9%	--
9/2	Cap Goods Ship Nondef Ex Air	Jul F	--	2.4%	2.4%	--
9/3	Challenger Job Cuts YoY	Aug	--	1.17	5.76	--
9/3	Nonfarm Productivity	2Q F	7.5%	10.1%	7.3%	--
9/3	Unit Labor Costs	2Q F	12.0%	9.0%	12.2%	--
9/3	Initial Jobless Claims	8/29	950k	881k	400k	1011k
9/3	Continuing Claims	8/22	14000k	13254k	14535k	14492k
9/3	Trade Balance	Jul	-\$58.0b	-\$63.6b	-\$50.7b	-\$53.5b
9/3	Markit US Services PMI	Aug F	54.7	55.0	54.8	--
9/3	Markit US Composite PMI	Aug F	--	54.6	54.7	--
9/3	ISM Services Index	Aug	57.0	56.9	58.1	--
9/4	Two-Month Payroll Net Revision	Aug	--	-39k	--	--
9/4	Change in Nonfarm Payrolls	Aug	1350k	1371k	476k	1734k
9/4	Change in Private Payrolls	Aug	1325k	1027k	446k	1481k
9/4	Change in Manufact. Payrolls	Aug	65k	29k	26k	41k
9/4	Unemployment Rate	Aug	9.8%	8.4%	10.2%	--
9/4	Average Hourly Earnings MoM	Aug	0.0%	0.4%	0.2%	0.1%
9/4	Average Hourly Earnings YoY	Aug	4.5%	4.7%	4.8%	4.7%
9/4	Average Weekly Hours All Employees	Aug	34.5	34.6	34.5	--
9/4	Labor Force Participation Rate	Aug	61.8%	61.7%	61.4%	--
9/4	Underemployment Rate	Aug	--	14.2%	16.5%	--
9/8	NFIB Small Business Optimism	Aug	99.0	--	98.8	--
9/8	Consumer Credit	Jul	\$12.900b	--	\$8.948b	--
9/9	JOLTS Job Openings	Jul	6000	--	5889	--
9/10	PPI Final Demand YoY	Aug	-0.4%	--	-0.4%	--
9/10	PPI Ex Food and Energy YoY	Aug	0.3%	--	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	259.62	--	259.10	--
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%	4.2%

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	18.8	20.3	21.0	23.6	26.4	20.2
FH/FN 15y	20.5	24.5	29.1	30.6	21.3	19.6
GN 15y	14.4	15.5	16.7	15.7	14.4	13.4
FH/FN 20y	22.5	28.2	22.7	20.4	20.6	18.1
FH/FN 30y	15.0	22.3	32.5	34.1	34.8	29.7
GN 30y	10.2	14.8	30.1	35.5	36.6	15.9

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	106.37	1.00	105.72	107.53	106.39
Euro	1.18	(0.01)	1.18	1.11	1.10
Dollar Index	93.13	0.76	93.38	97.34	98.45
Major Stock Indices					
Dow Jones	28,011	(643)	26,828	27,091	26,355
S&P 500	3,406.2	(101.8)	3,306.5	3,130.1	2,937.8
NASDAQ	11,044.4	(651)	10,941.2	9,018.1	7,976.9
Commodities					
Gold	1,924.2	(42.6)	2,001.2	1,643.0	1,554.0
Crude Oil	40.31	(2.66)	41.70	46.78	56.26
Natural Gas	2.45	(0.20)	2.19	1.83	2.45
Wheat	544.0	4.8	508.3	521.5	456.3
Corn	345.5	-0.5	308.3	387.0	346.0

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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