

## Baker Market Update: Week in Preview

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This week may be short on days, but it's long on news and the National Federation of Independent Businesses has already begun the data delivery with this morning's announcement that its Small Business Optimism Index took an unexpected leap in August to 100.2 from 98.8 against an expected rise to just 99. The news is particularly welcome in light of a recent survey conducted by the Society of Human Resource Management which found that 52% of small businesses expect to fail in the coming months. If today's report is any indication, maybe that won't happen. What will happen, today anyway, is the sale of \$249B worth of securities by the Treasury including a new, \$50B Three-Year note issue. That's a lot of bonds. A little later today, the Federal Reserve is expected to tell us that Consumer Credit in July grew by \$13B after June's rise of just under \$9B. Frugal and fearful consumers have been pulling in their credit card horns during the pandemic and maybe this is an early indication that plastic-propelled consumption may be returning.

Signs of inflation's return will be sought on Thursday when the BLS is expected to report that its Producer Price Index rose by 0.2% in August with the year-over-year rate still deflationary at minus 0.3%. Without food and energy, core PPI is also expected to have notched a 0.2% monthly rise with the year-over-year rate remaining at July's 0.3%. The BLS will release its Job Openings and Labor Turnover Survey tomorrow and the need for new positions is expected to show a little bit of growth from June's 5.9M to July's forecast for 6M. Also tomorrow, the Treasury will sell another \$35B Ten-Year notes. The world needs more bonds.

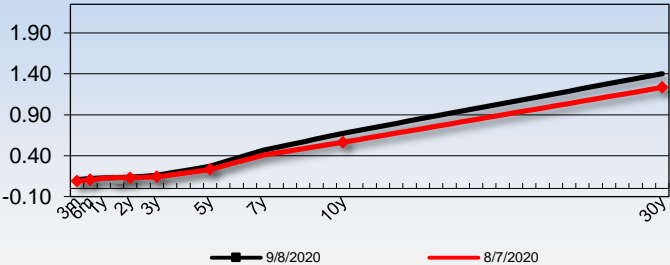
And while our economy still needs more jobs, we're likely to hear on Thursday that Initial Jobless Claims for the week ending September 5<sup>th</sup> fell to 847k from the prior week's 881k as Continuing Claims for the week ending August 29<sup>th</sup> perhaps fell to 12.9M from 13.3M. Thursday will also bring another auction for \$23B Thirty-Year bonds. The world still needs more bonds.

And in what has been a long and loud lament, the world still needs more inflation. That's why Friday's Consumer Price Index report will get a lot of attention. The headline Index should show an August bump of 0.3% with the year-over-year pace rising to 1.2% from 1%. Without food and energy, core CPI should show a monthly boost of 0.2% but that will still leave the year-over-year rate at an unchanged 1.6%. Inflation is always tricky to gauge and the convolutions that have occurred in supply and demand conditions during the lockdown and recovery only make it harder for any measure of price-level changes to realistically reflect their ultimate effects. Still, the measurements will continue, and probably continue to disappoint our policy-makers.

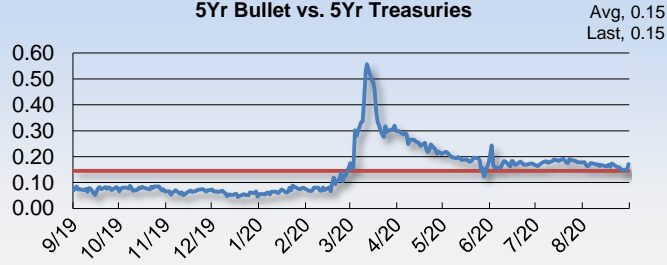
Continuing this morning is the sell-off in big-name tech stocks and that has equity investors seeing red. Bonds don't mind, though, because they're real and the Ten-Year's half-point price move has pushed its yield down to around 66 basis points as the Long Bond's two-point rally has pushed that yield back down below 1.40%. Crude oil is still getting beat-up and this morning's \$3 dip has put a barrel's price at around \$36.75. Gold is down around \$26 to \$1,907. But, who really cares?! Football is back! Have a great week; be careful out there.



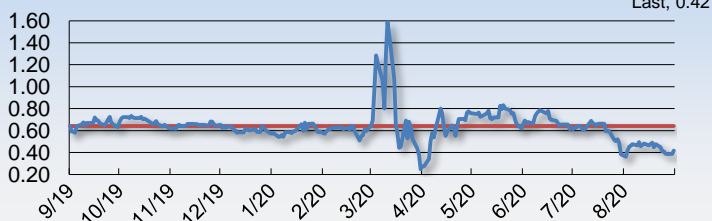
**Treasury Yield Curve - Current vs. 1-Month**



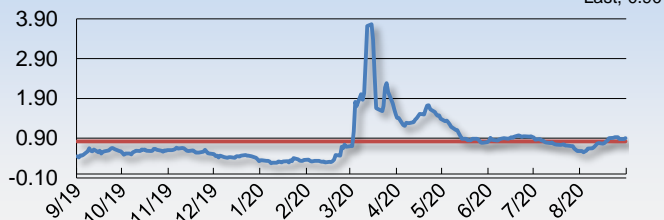
**Agency Spreads  
5Yr Bullet vs. 5Yr Treasuries**



**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	0.11	0.00	0.09	0.46	1.95
6mo	0.12	0.01	0.11	0.40	1.87
1yr	0.13	0.01	0.13	0.39	1.74
2yr	0.14	0.00	0.13	0.51	1.54
3yr	0.16	0.01	0.14	0.56	1.51
5yr	0.27	0.02	0.23	0.61	1.43
7yr	0.47	0.00	0.41	0.71	1.51
10yr	0.67	0.00	0.56	0.76	1.56
30yr	1.40	(0.02)	1.23	1.29	2.03

**Fixed Rate Market**

Maty	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro				
			C-Corp <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
2yr	0.19	0.23	0.21	0.22	0.23	2Yr	0.19	0.20	0.20	-
3yr	0.27	0.24	0.22	0.24	0.33	3Yr	0.31	0.32	0.30	0.28
5yr	0.45	0.34	0.36	0.39	0.54	5Yr	0.56	0.57	0.57	0.53
7yr	0.63	0.48	0.69	0.73	0.81	7Yr	0.78	0.80	0.80	0.77
10yr	1.03	0.68	1.16	1.24	1.28	10Yr	1.13	1.13	1.13	1.10
15yr	1.43	0.87	1.62	1.73	1.81	October TBA MBS				
20yr	1.82	0.97	1.92	2.04	2.37	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
25yr	2.21	1.01	2.06	2.19	2.43	2.00	0.90	3.9y	1.35	
30yr		1.02	2.20	2.34	2.48	2.50	0.95	3.4y		
						3.00	1.09	2.9y	0.85	2.6y
						3.50	0.99	2.5y	0.67	2.1y
						4.00			0.62	2.1y
						4.50			0.96	2.5y

\* 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	1.75	2.75
2ndary Discount	0.75	--	0.75	2.25	3.25
Prime Rate	3.25	--	3.25	4.25	5.25
Sec. O.N. Finance	0.09	0.02	0.09	1.23	--
1 Month LIBOR	0.15	(0.00)	0.15	1.02	2.06
3 Month LIBOR	0.25	0.01	0.25	1.00	2.11
6 Month LIBOR	0.29	(0.02)	0.31	0.99	1.99
1 Year LIBOR	0.42	(0.02)	0.45	0.97	1.90
6 Month CD	0.20	(0.02)	0.19	0.83	2.05
1 Year CMT	0.13	0.01	0.14	0.59	1.69
REPO O/N	0.13	0.01	0.12	1.13	2.16
REPO 1Wk	0.09	0.01	0.09	1.12	2.15
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	0.28	0.40	--
6mo	0.29	0.39	--
1yr	0.34	0.35	--
2yr	0.36	0.53	--
3yr	0.42	0.62	--
4yr	0.52	0.73	--
5yr	0.61	0.83	--
7yr	0.88	1.13	--
10yr	1.20	1.48	--
5yr Am	0.48	--	--
10yr Am	0.87	--	--

**Fed Fund Futures**

Maturity	Rate
Sep-20	0.087
Oct-20	0.080
Nov-20	0.070
Dec-20	0.070
Jan-21	0.060
Feb-21	0.055
Mar-21	0.045
Apr-21	0.045
May-21	0.040
Jun-21	0.040
Jul-21	0.040

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
9/8	NFIB Small Business Optimism	Aug	99.0	100.2	98.8	--
9/8	Consumer Credit	Jul	\$13.000b	--	\$8.948b	--
9/9	MBA Mortgage Applications	9/4	--	--	-2.0%	--
9/9	JOLTS Job Openings	Jul	6000	--	5889	--
9/10	PPI Final Demand MoM	Aug	0.2%	--	0.6%	--
9/10	PPI Ex Food and Energy MoM	Aug	0.2%	--	0.5%	--
9/10	PPI Ex Food, Energy, Trade MoM	Aug	0.2%	--	0.3%	--
9/10	PPI Final Demand YoY	Aug	-0.3%	--	-0.4%	--
9/10	PPI Ex Food and Energy YoY	Aug	0.3%	--	0.3%	--
9/10	PPI Ex Food, Energy, Trade YoY	Aug	0.2%	--	0.1%	--
9/10	Initial Jobless Claims	9/5	850k	--	881k	--
9/10	Continuing Claims	8/29	12904k	--	13254k	--
9/10	Bloomberg Consumer Comfort	9/6	--	--	45.1	--
9/10	Wholesale Inventories MoM	Jul F	-0.1%	--	-0.1%	--
9/10	Wholesale Trade Sales MoM	Jul	--	--	8.8%	--
9/11	Real Avg Weekly Earnings YoY	Aug	--	--	4.3%	4.2%
9/11	CPI MoM	Aug	0.3%	--	0.6%	--
9/11	CPI Ex Food and Energy MoM	Aug	0.2%	--	0.6%	--
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	259.59	--	259.10	--
9/11	CPI Core Index SA	Aug	268.52	--	267.72	--
9/11	Real Avg Hourly Earning YoY	Aug	--	--	3.7%	--
9/11	Monthly Budget Statement	Aug	-\$250.0b	--	-\$63.0b	--
9/15	Empire Manufacturing	Sep	5.0	--	3.7	--
9/15	Import Price Index YoY	Aug	--	--	-3.3%	--
9/15	Export Price Index YoY	Aug	--	--	-4.4%	--
9/15	Industrial Production MoM	Aug	0.9%	--	3.0%	--
9/15	Capacity Utilization	Aug	71.7%	--	70.6%	--
9/15	Manufacturing (SIC) Production	Aug	2.3%	--	3.4%	--
9/16	Retail Sales Ex Auto and Gas	Aug	1.1%	--	1.5%	--
9/16	Retail Sales Control Group	Aug	0.9%	--	1.4%	--
9/16	Business Inventories	Jul	0.2%	--	-1.1%	--
9/16	NAHB Housing Market Index	Sep	78	--	78	78
9/16	FOMC Rate Decision (Upper Bound)	9/16	0.25%	--	0.25%	--
9/16	FOMC Rate Decision (Lower Bound)	9/16	0.00%	--	0.00%	--
9/16	Interest Rate on Excess Reserves	9/17	--	--	0.10%	--
9/16	Net Long-term TIC Flows	Jul	--	--	\$113.0b	--
9/16	Total Net TIC Flows	Jul	--	--	-\$67.9b	--
9/17	Building Permits	Aug	1540k	--	1495k	1483k
9/17	Housing Starts	Aug	1475k	--	1496k	--
9/17	Philadelphia Fed Business Outlook	Sep	17.0	--	17.2	--
9/17	Bloomberg Economic Expectations	Sep	--	--	38.0	--
9/18	Current Account Balance	2Q	-\$167.5b	--	-\$104.2b	--
9/18	U. of Mich. Sentiment	Sep P	74.0	--	74.1	--
9/18	U. of Mich. Current Conditions	Sep P	--	--	82.9	--
9/18	U. of Mich. 1 Yr Inflation	Sep P	--	--	3.1%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.6	22.0	25.1	29.4	27.6	10.8
FH/FN 15y	11.5	17.4	42.5	49.6	20.9	20.5
GN 15y	33.6	28.2	28.3	25.5	24.6	21.7
FH/FN 20y	1.8	24.6	30.2	30.5	30.5	22.5
FH/FN 30y	11.0	21.0	36.3	56.0	61.2	54.5
GN 30y	23.7	22.9	31.2	44.5	40.2	35.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.0	18.5	19.4	28.1	22.9	17.8
FH/FN 15y	15.6	20.2	23.3	26.8	18.8	20.6
GN 15y	22.8	13.8	16.4	16.2	14.3	13.3
FH/FN 20y	20.5	21.0	22.4	21.5	21.0	18.0
FH/FN 30y	15.2	22.5	34.9	37.9	35.7	30.9
GN 30y	12.1	16.8	25.3	25.7	28.6	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	105.97	0.01	105.96	102.36	107.24
Euro	1.18	(0.01)	1.17	1.15	1.10
Dollar Index	93.33	1.18	93.44	95.95	98.39
<b>Major Stock Indices</b>					
Dow Jones	27,608	(822)	27,433	25,865	26,797
S&P 500	3,427.0	(73.3)	3,351.3	2,972.4	2,978.7
NASDAQ	10,896.6	(879)	11,011.0	8,575.6	8,103.1
<b>Commodities</b>					
Gold	1,912.0	(58.5)	2,010.1	1,672.4	1,509.0
Crude Oil	37.14	(5.47)	41.22	41.28	56.52
Natural Gas	2.53	(0.10)	2.24	1.71	2.50
Wheat	534.8	-9.5	495.5	521.3	460.3
Corn	348.3	-0.3	307.8	377.3	342.5

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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