

## Baker Market Update: Week in Review

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What do you suppose the fisherman who drowned in a pond with an average depth of just two feet thinks about statistics? We know the FOMC likes lots of statistics and the Committee is going to start managing price levels based on the average depth of the inflation pond rather than worry too much about the deep end. Our hapless angler might have a thing or two to tell Mr. Powell about the pitfalls of relying on averages.

For now, though, the concept remains an academic exercise since our economy has seldom reached, much less exceeded, the 2% inflation goal that our policy-makers established in 2012. But, this morning's report from the Bureau of Labor Statistics indicates that things might at least be moving in the right direction. The BLS reported that, in August, the Consumer Price Index rose by a greater-than-expected 0.4% and that helped push the year-over-year rate to 1.3% from July's 1% twelve-month pace. Without food and energy, core CPI rose by 0.4%, twice what was expected, and that year-over-year rate rose to 1.7% from 1.6%. Used Car prices rose 5.4% last month. While this morning's report might seem that inflation's growth is sneaking up on the Fed's goal, remember that the Committee views consumer inflation through the lens of the Personal Consumption Expenditures Core Index and when that calculation was last viewed, it was only 1.3%. The next viewing will be on October 1<sup>st</sup>.

The effects of inflation on workers' compensation was also reported this morning and we learned that Real Average Hourly Earnings rose by 3.3% last month with inflation-adjusted Average Weekly Earnings rising by 3.9%. Both are down a little bit from July, but there's nothing average about growth rates like that in the middle of a recession. Thanks, Uncle Sam!

Yesterday, a fresh reading on wholesale inflation through the Producer Price Index came our way and despite last month's 0.3% rise in headline PPI, the year-over-year pace is still deflationary at minus 0.2%. But, at least that's a little less deflationary than July's minus 0.4%. For wholesalers, their inflation pond looks more like a dry riverbed. Without food and energy, core PPI is at least positive with August's year-over-year rate getting a boost to 0.6% from 0.3%. It's a little hard to tell, though, the degree to which supply chain disruptions are affecting all prices these days.

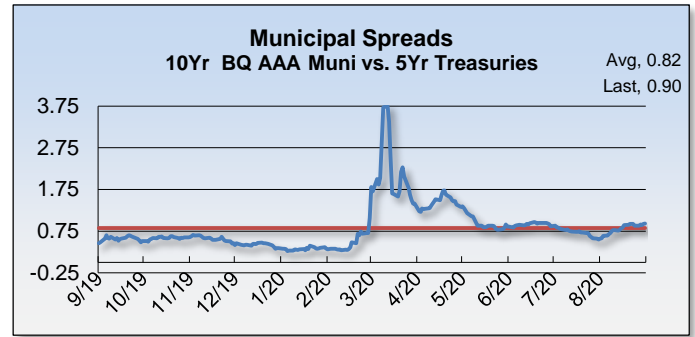
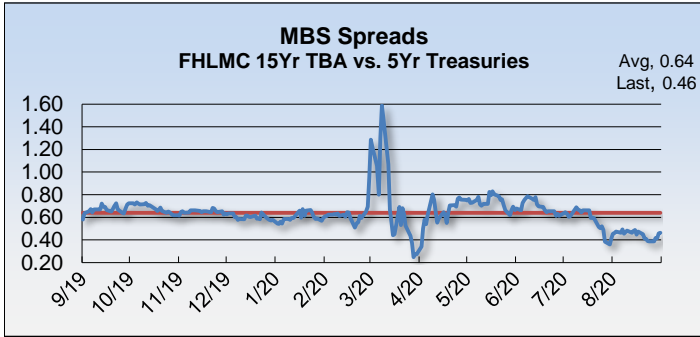
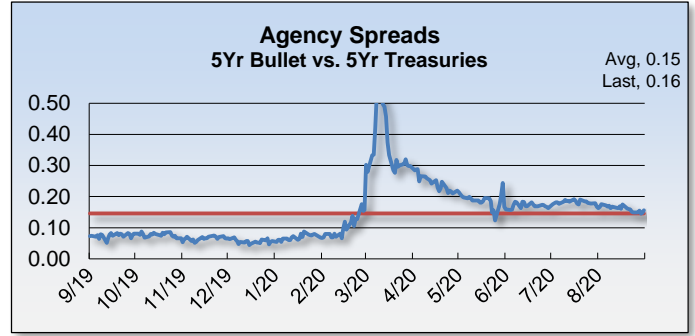
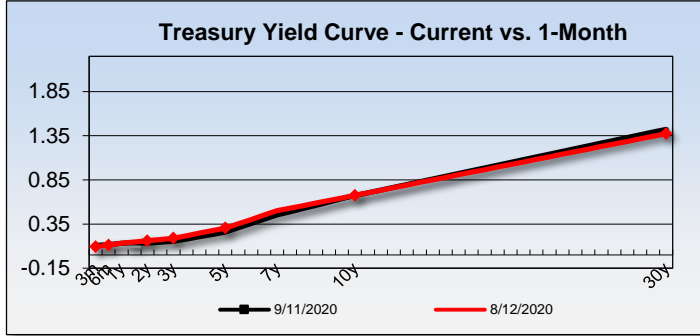
But, it's not hard to tell how the owners of small businesses are feeling these days because, on Monday, the National Federation of Small Businesses reported that its Optimism Index unexpectedly rose to 100.2 from 98.8 while a move to 99 was all that was expected. Within the Index, only 1% of business owners surveyed said that inflation was their top concern. This could prove to be worrisome for those hoping to gin up inflation since that's pretty tough to do in the absence of inflationary expectations.

Many market observers were expecting Initial Jobless Claims to fall, but we learned that for the week ending September 5<sup>th</sup>, that measure came in at 884k, the same as the week before, and more than the 850k that was forecast. Continuing Claims for the week ending August 29<sup>th</sup> was also a disappointment with a new total of 13.39M that was greater than the prior week's 13.3M and quite a bit more than the 12.9M that was forecast. But, that's okay; the average went down.

Consumer Credit, however, did not. In a report from the Federal Reserve, investors learned that June's rather sedate rise of \$8.9B was much more vigorous after being revised to \$11.4B while July's level came in at \$12.25B. Car purchases represent much of the new growth while credit-card debt fell for the fifth straight month. July's paydown of revolving credit came to \$293M as cautious and frugal households continue to swipe those cards a little less and pay down those balances.

At the same time, we found out on Tuesday that there are a lot more employment opportunities out there than were previously thought. In the Job Openings and Labor Turnover Survey from the BLS, it was reported that the number of those openings grew to over 6.6M in July after June's previously reported 5.9M was revised to 6M. Analysts weren't expecting much of a change. So, while a rising number of new openings is a good thing, not all of the statistics within the report were particularly positive. New Hires fell 1.18M and that far outpaced the 274k decline in lay-offs. For the Leisure & Hospitality sector, openings and hires both fell in a segment of the labor market that was among the hardest hit by the lockdown in what might be an indication of more permanent job losses. We'll see how that plays out as reopening efforts continue.

Efforts to get our kids educated continue, and continue to pose daunting challenges for parents, students, and teachers alike. If that home school/virtual school thing isn't going so well, families might want to consider a move to Lake Wobegon, Minnesota, the hometown of author Garrison Keillor, where, according to Mr. Keillor, "all children are above average." 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.11	0.00	0.10	0.41	1.95	2yr	0.19	0.22	0.18	0.19	0.25	2Yr	0.18	0.19	0.19	-
6mo	0.12	(0.00)	0.12	0.39	1.88	3yr	0.26	0.23	0.20	0.21	0.35	3Yr	0.28	0.30	0.20	0.26
1yr	0.13	0.01	0.14	0.37	1.79	5yr	0.43	0.32	0.34	0.36	0.55	5Yr	0.52	0.54	0.53	0.51
2yr	0.13	(0.01)	0.15	0.52	1.68	7yr	0.61	0.47	0.69	0.73	0.79	7Yr	0.76	0.78	0.78	0.76
3yr	0.15	(0.02)	0.17	0.64	1.65	10yr	1.03	0.68	1.18	1.25	1.28	10Yr	1.11	1.12	1.13	1.11
5yr	0.26	(0.04)	0.28	0.70	1.59	15yr	1.45	0.89	1.64	1.74	1.83	October TBA MBS				
7yr	0.45	(0.05)	0.47	0.84	1.67	20yr	1.87	1.00	1.93	2.06	2.33	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.67	(0.04)	0.64	0.87	1.74	25yr	2.29	1.04	2.07	2.21	2.39	2.00	0.87	3.9y	1.40	
30yr	1.42	(0.05)	1.33	1.39	2.22	30yr	2.29	1.06	2.21	2.35	2.44	2.50	0.97	3.3y		
												3.00	1.12	2.9y	0.94	2.6y
												3.50	0.97	2.5y	0.71	2.1y
												4.00			0.61	2.1y
												4.50			0.91	2.4y

\* 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	(0.01)	0.09	1.11	--
1 Month LIBOR	0.15	(0.00)	0.16	0.72	2.05
3 Month LIBOR	0.25	(0.00)	0.25	0.77	2.14
6 Month LIBOR	0.29	(0.00)	0.31	0.74	2.04
1 Year LIBOR	0.41	(0.01)	0.45	0.74	1.95
6 Month CD	0.35	0.03	0.23	0.75	1.94
1 Year CMT	0.15	0.03	0.13	0.43	1.81
REPO O/N	0.13	(0.02)	0.12	1.21	2.16
REPO 1Wk	0.09	0.01	0.09	0.79	2.14
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	0.41
6mo	0.29	0.39	0.42
1yr	0.34	0.35	0.46
2yr	0.36	0.54	0.50
3yr	0.42	0.62	0.58
4yr	0.50	0.72	0.67
5yr	0.58	0.80	0.74
7yr	0.87	1.13	1.04
10yr	1.19	1.49	1.38
5yr Am	0.46		0.69
10yr Am	0.85		1.09

Fed Fund Futures	
Maturity	Rate
Sep-20	0.090
Oct-20	0.085
Nov-20	0.080
Dec-20	0.070
Jan-21	0.065
Feb-21	0.060
Mar-21	0.050
Apr-21	0.045
May-21	0.040
Jun-21	0.035
Jul-21	0.030

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	\$12.250b	<del>\$8.948b</del>	\$11.394b
9/9	MBA Mortgage Applications	9/4	--	2.9%	-2.0%	--
9/9	JOLTS Job Openings	Jul	6000	6618	5889	6001
9/10	PPI Final Demand MoM	Aug	0.2%	0.3%	0.6%	--
9/10	PPI Ex Food and Energy MoM	Aug	0.2%	0.4%	0.5%	--
9/10	PPI Ex Food, Energy, Trade MoM	Aug	0.2%	0.3%	0.3%	--
9/10	PPI Final Demand YoY	Aug	-0.3%	-0.2%	-0.4%	--
9/10	PPI Ex Food and Energy YoY	Aug	0.3%	0.6%	0.3%	--
9/10	PPI Ex Food, Energy, Trade YoY	Aug	0.2%	0.3%	0.1%	--
9/10	Initial Jobless Claims	9/5	850k	884k	<del>884k</del>	884k
9/10	Continuing Claims	8/29	12904k	13385k	<del>13254k</del>	13292k
9/10	Bloomberg Consumer Comfort	9/6	--	47.8	45.1	--
9/10	Wholesale Inventories MoM	Jul F	-0.1%	-0.3%	-0.1%	--
9/10	Wholesale Trade Sales MoM	Jul	--	4.6%	8.8%	9.0%
9/11	CPI MoM	Aug	0.3%	0.4%	0.6%	--
9/11	CPI Ex Food and Energy MoM	Aug	0.2%	0.4%	0.6%	--
9/11	CPI YoY	Aug	1.2%	1.3%	1.0%	--
9/11	CPI Ex Food and Energy YoY	Aug	1.6%	1.7%	1.6%	--
9/11	CPI Index NSA	Aug	259.61	259.92	259.10	--
9/11	CPI Core Index SA	Aug	268.44	268.75	267.72	--
9/11	Real Avg Hourly Earning YoY	Aug	--	3.3%	3.7%	--
9/11	Real Avg Weekly Earnings YoY	Aug	--	3.9%	4.3%	4.2%
9/11	Monthly Budget Statement	Aug	-\$242.7b	--	-\$200.3b	--
9/15	Import Price Index YoY	Aug	-2.2%	--	-3.3%	--
9/15	Export Price Index YoY	Aug	--	--	-4.4%	--
9/15	Industrial Production MoM	Aug	1.1%	--	3.0%	--
9/15	Capacity Utilization	Aug	71.7%	--	70.6%	--
9/15	Manufacturing (SIC) Production	Aug	2.2%	--	3.4%	--
9/16	Retail Sales Ex Auto and Gas	Aug	0.8%	--	1.5%	--
9/16	Retail Sales Control Group	Aug	0.3%	--	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	1530k	--	<del>1495k</del>	1483k
9/17	Housing Starts	Aug	1480k	--	1496k	--
9/17	Philadelphia Fed Business Outlook	Sep	15.0	--	17.2	--
9/17	Bloomberg Economic Expectations	Sep	--	--	38.0	--
9/18	Current Account Balance	2Q	-\$158.0b	--	-\$104.2b	--
9/18	Leading Index	Aug	1.3%	--	1.4%	--
9/18	U. of Mich. Sentiment	Sep P	75.0	--	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	34.9
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	15.7	20.3	23.5	26.9	18.8	20.7
GN 15y	22.9	14.0	16.6	16.3	14.4	13.4
FH/FN 20y	20.5	21.1	22.6	21.6	21.0	18.1
FH/FN 30y	15.1	21.5	34.7	37.9	35.7	31.0
GN 30y	12.1	16.8	25.3	25.7	28.7	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	106.10	(0.14)	106.49	104.54	107.82
Euro	1.18	0.00	1.17	1.13	1.10
Dollar Index	93.23	0.51	93.63	96.51	98.65
<b>Major Stock Indices</b>					
Dow Jones	27,587	(706)	27,687	23,553	27,137
S&P 500	3,351.9	(103.1)	3,333.7	2,741.4	3,000.9
NASDAQ	10,908.2	(550)	10,782.8	7,952.1	8,169.7
<b>Commodities</b>					
Gold	1,954.0	23.8	1,932.6	1,642.3	1,496.6
Crude Oil	37.25	(4.12)	41.61	32.98	55.75
Natural Gas	2.30	(0.19)	2.17	1.88	2.55
Wheat	543.0	-0.3	495.0	517.3	477.5
Corn	360.5	16.0	311.5	379.3	348.3

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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