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Baker Market Update: Week in Review

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For many Americans, the best news of the week had nothing to do with low mortgage rates or improving labor conditions or even a crazy-high stock market. No, the best news of the week was an announcement by the Big 10 Conference that its 14 schools will be playing 9 football games this year. Don't worry about those numbers not quite making sense, the Wolverines will be back on the gridiron! And since college football makes everything better, that's probably why the University of Michigan announced this morning that its Index of Consumer Sentiment rose unexpectedly to 78.9 this month from its August level of 74.1. Analysts from the still-sitting-out-the-season Pac 12 were only looking for a move to 75. Even more encouraging was the move in the Expectations sub-index to 73.3 from 68.5 in the face of a forecast predicting a decline. Nor was there a decline in the Current Conditions sub-index with that measure rising to 87.5 from 82.9 against an expectation of just 83.1. Hail to the Victors!

But, before this morning's news, the data-week began with Tuesday's glowing report from the New York Fed telling us that its Empire Manufacturing Index soared this month to a value of 17 that blew away estimates of 6.9 and represented a huge improvement over the August reading of just 3.7. That helped offset the less buoyant news that Industrial Production only rose by 0.4% in August in a big fall from July's upwardly revised gain of 3.5%. Analysts were looking for a 1% pick-up. Capacity Utilization picked-up a bit in August, but not very much. This measure of the economy's output of manufacturing, mining, and utility generation versus its potential, rose slightly to 71.4% in August from an upwardly revised 71.1% in July. Despite the economy's comeback from an April low of just over 64%, the long-run average of around 80% should remind those concerned about inflation that our economy is still operating with a huge output gap.

The Bureau of Labor Statistics shared some price-level news with us on Tuesday with a report showing that Import Prices rose 0.9% in August, but that still left the year-over-year pace at a deflationary minus 1.4%. For Exports, those prices rose 0.5% last month, but the year-over-year rate is still negative at minus 2.8%.

But, enough with the negativity! The National Association of Home Builders are feeling pretty positive and it showed up on Wednesday when it announced that its Housing Market Index rose to 83 this month and that's a new record. August's value for that index was 78. Retail Sales numbers for August were also published on Wednesday, but no records were set. Overall, Sales rose just 0.6% last month versus a forecast of 1% while July's 1.2% gain was lowered to just 0.9%. Without autos, Sales only rose by 0.7% against a forecast of 1% while July's 1.9% growth was revised to just 1.3%. Core Retail Sales, without gas stations, auto dealers, and building materials actually fell 0.1% in the face of an expected 0.3% rise while July's 1.4% was lowered to 0.9%. So, not only did this report disappoint those looking for a more contemporaneous comeback from the consumer, it retroactively disappointed those who were feeling good about last month's numbers.

On Thursday, we were told we could start feeling better about declining numbers of those filing for unemployment benefits, but while the 860k Americans who filed for Initial Jobless Claims during the week ending September 12th was down from the prior week's upwardly revised 893k, it was still more than the 850k that was forecast. For a little context, our economy has never come out of a recession before that count falls below 600k. Continuing Claims for the week ending September 5th provided a little better news by falling more than expected to 12.63M. That was a significant decline from the prior week's 13.54M and significantly better than the expectation of 13M.

Another significant decline, and not a good one, could be found in the 5.1% drop in Housing Starts last month after July's very robust 22.6% gain was robustly and downwardly revised to 17.9%. Still, Single-Family Starts rose to a 1.02M annualized rate and that is just shy of their pre-COVID pace. Building Permits had a similar August experience with the overall total falling by 0.9% even as permits for Single-Family Homes rose to their highest level since 2007. It may be hard to quantify, but it's looking like the COVID experience may be leading more families to flee their high-density housing arrangement in favor of a front porch and a back yard. Don't forget the pre-emergent.

The Conference Board emerged long enough this morning to tell us that its Index of Leading Economic Indicators rose 1.2% in August, but the better news was that July's 1.4% gain was actually 2%. And that leads us to the Fed.

The FOMC told us a while back that it was moving to Average Inflation Targeting, so it's a little puzzling why the Committee's statement seemed to surprise so many observers. Did they not believe Jerome the first three times he told us that? Apparently, Robert Kaplan from the Dallas Fed and Neel Kashkari from the Minneapolis Fed thought it was a bluff since they dissented from the vote approving the Fed's statement describing what all that means. Evidently, the vague, nebulous, and hazy outline given by the Committee was not vague, nebulous, nor hazy enough for those two who seem to think the indistinct wording still doesn't provide enough flexibility for policy-makers. But, it may not matter since Mr. Powell's Committee reinforced the notion that "lower for longer" may actually be "lower for longer-er" with the new dot-plot showing little sign of a rate hike through 2023. And, it looks like the Committee seems to think things are looking up with a revised forecast for 2020's GDP. In June, the Committee was expecting 2020's GDP to fall 6.5%, but now they only think it will fall 3.7%. Also back in June, they thought we'd wind up the year with a 9.3% Unemployment Rate, but now they think it will only be 7.6%. In a statement since made by St. Louis Fed President James Bullard, he went even further by saying that he thought the Unemployment Rate could dip as low as 6.5% by year's end. Easy there, Jim. Oh yeah, the Committee also expressed its confidence that its 2% goal for inflation would be reached by the end of 2023, but they weren't quite confident enough to write it down in ink. No matter, 2023 is still a ways away and not only will the Committee have a chance to snap its losing streak with inflation, Michigan will have a chance to snap its losing streak with Ohio State. Go Team! Have a great weekend; be careful out there.

Lunch with Lester — The Baker Group

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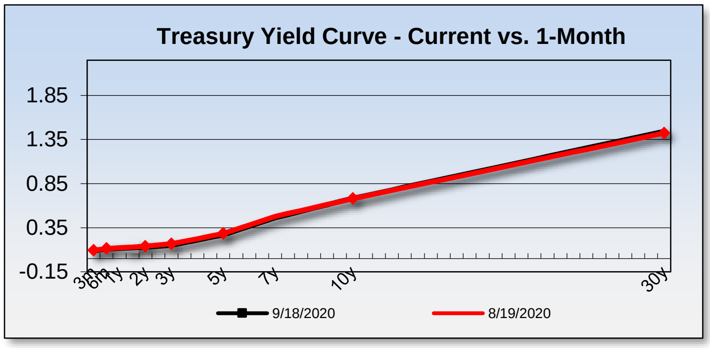

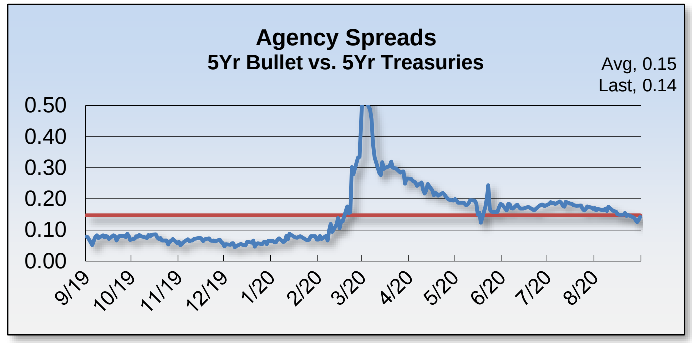

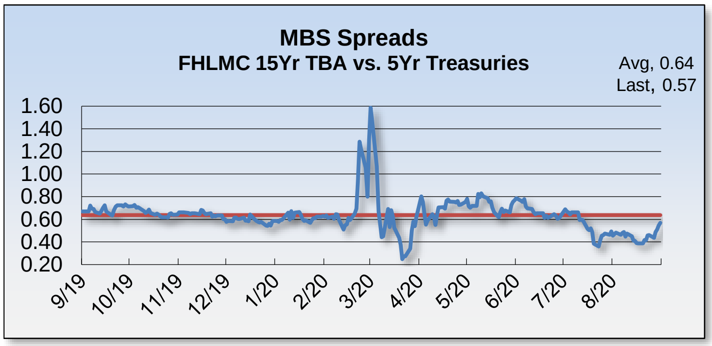

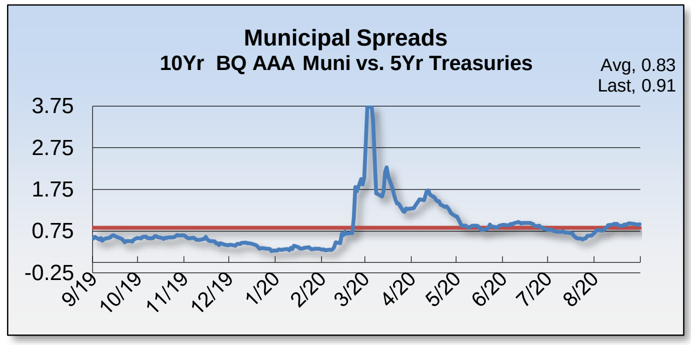

Treasury Market -- Historical

Maty	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
3mo	0.09	(0.02)	0.10	0.01	1.93
6mo	0.11	(0.01)	0.12	0.07	1.90
1yr	0.12	(0.02)	0.13	0.18	1.86
2yr	0.13	0.00	0.14	0.54	1.76
3yr	0.15	(0.00)	0.17	0.65	1.74
5yr	0.27	0.02	0.28	0.79	1.68
7yr	0.46	0.02	0.47	1.09	1.76
10yr	0.68	0.02	0.67	1.19	1.80
30yr	1.44	0.03	1.40	1.79	2.24

** Interpolated*

Fixed Rate Market

Maty /AL	N-Call Agency	US Swap	AAA BQ Muni C-Corp[2]	S-Corp[3]	Tax Muni
2yr	0.18	0.21	0.18	0.19	0.27
3yr	0.26	0.23	0.20	0.21	0.38
5yr	0.45	0.33	0.34	0.36	0.60
7yr	0.62	0.48	0.69	0.73	0.81
10yr	1.03	0.69	1.18	1.25	1.32
15yr	1.44	0.90	1.64	1.74	1.89
20yr	1.84	1.01	1.93	2.06	2.33
25yr	2.24	1.05	2.07	2.21	2.39
30yr		1.07	2.21	2.35	2.44

Agency Calls - Euro

Mty	3Mo	6mo	1Yr	2Yr
2Yr	0.18	0.19	0.18	-
3Yr	0.27	0.29	0.20	0.25
5Yr	0.52	0.54	0.54	0.51
7Yr	0.76	0.78	0.78	0.75
10Yr	1.10	1.11	1.13	1.09

October TBA MBS

Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
2.00	0.92	3.7y	1.42	
2.50	1.15	3.6y		
3.00	1.13	2.9y	1.01	2.5y
3.50	1.07	2.6y	0.82	2.1y
4.00			0.72	2.2y
4.50			0.96	2.5y

Key Market Indices

Index	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
Fed Funds	**0.25**	**--**	0.25	0.25	2.00
Primary Discount	**0.25**	**--**	0.25	0.25	2.75
2ndary Discount	**0.75**	**--**	0.75	0.75	3.25
Prime Rate	**3.25**	--	3.25	3.25	5.25
Sec. O.N. Finance	**0.10**	0.01	0.10	0.54	--
1 Month LIBOR	**0.15**	(0.00)	0.15	0.61	2.04
3 Month LIBOR	**0.23**	(0.02)	0.27	0.89	2.15
6 Month LIBOR	**0.27**	(0.01)	0.33	0.84	2.08
1 Year LIBOR	**0.38**	(0.04)	0.46	0.82	2.07
6 Month CD	**0.30**	(0.05)	0.19	0.90	2.01
1 Year CMT	**0.12**	(0.03)	0.13	0.30	1.87
REPO O/N	**0.12**	0.01	0.12	0.08	2.13
REPO 1Wk	**0.09**	(0.03)	0.13	0.65	1.98
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	0.40	0.41
6mo	0.28	0.39	0.41
1yr	0.34	0.35	0.44
2yr	0.33	0.51	0.45
3yr	0.40	0.60	0.53
4yr	0.47	0.67	0.59
5yr	0.58	0.79	0.69
7yr	0.85	1.10	0.96
10yr	1.17	1.45	1.28
5yr Am	0.45		0.63
10yr Am	0.84		1.01

Fed Fund Futures

Maturity	Rate
Sep-20	0.090
Oct-20	0.085
Nov-20	0.080
Dec-20	0.075
Jan-21	0.065
Feb-21	0.055
Mar-21	0.050
Apr-21	0.045
May-21	0.040
Jun-21	0.040
Jul-21	0.040

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Weekly Economic Calendar

This Week & Next

Date	Release	Per.	Est.	Actual	Prior	Revised
9/15	Empire Manufacturing	Sep	6.9	17.0	3.7	--
9/15	Import Price Index MoM	Aug	0.5%	0.9%	~~0.7%~~	1.2%
9/15	Import Price Index ex Petroleum MoM	Aug	0.3%	0.7%	0.2%	--
9/15	Import Price Index YoY	Aug	-2.1%	-1.4%	~~-3.3%~~	-2.8%
9/15	Export Price Index MoM	Aug	0.4%	0.5%	~~0.8%~~	0.9%
9/15	Export Price Index YoY	Aug	-3.2%	-2.8%	~~-4.4%~~	-3.8%
9/15	Industrial Production MoM	Aug	1.0%	0.4%	~~3.0%~~	3.5%
9/15	Capacity Utilization	Aug	71.4%	71.4%	~~70.6%~~	71.1%
9/15	Manufacturing (SIC) Production	Aug	1.3%	1.0%	~~3.4%~~	3.9%
9/16	MBA Mortgage Applications	9/11	--	-2.5%	2.9%	--
9/16	Retail Sales Advance MoM	Aug	1.0%	0.6%	~~1.2%~~	0.9%
9/16	Retail Sales Ex Auto MoM	Aug	1.0%	0.7%	~~1.9%~~	1.3%
9/16	Retail Sales Ex Auto and Gas	Aug	0.9%	0.7%	~~1.5%~~	1.1%
9/16	Retail Sales Control Group	Aug	0.3%	-0.1%	~~1.4%~~	0.9%
9/16	Business Inventories	Jul	0.1%	0.1%	-1.1%	--
9/16	NAHB Housing Market Index	Sep	78	83	78	--
9/16	FOMC Rate Decision (Upper Bound)	9/16	0.25%	0.25%	0.25%	--
9/16	FOMC Rate Decision (Lower Bound)	9/16	0.00%	0.00%	0.00%	--
9/16	Interest Rate on Excess Reserves	9/17	0.10%	0.10%	0.10%	--
9/16	Net Long-term TIC Flows	Jul	--	$10.8b	$113.0b	--
9/16	Total Net TIC Flows	Jul	--	-$88.7b	~~-$67.9b~~	-$69.8b
9/17	Initial Jobless Claims	9/12	850k	860k	~~884k~~	893k
9/17	Continuing Claims	9/5	13000k	12628k	~~13385k~~	13544k
9/17	Housing Starts	Aug	1488k	1416k	~~1496k~~	1492k
9/17	Housing Starts MoM	Aug	-0.6%	-5.1%	~~22.6%~~	17.9%
9/17	Building Permits	Aug	1512k	1470k	~~1495k~~	1483k
9/17	Building Permits MoM	Aug	2.0%	-0.9%	~~18.8%~~	17.9%
9/17	Philadelphia Fed Business Outlook	Sep	15.0	15.0	17.2	--
9/17	Bloomberg Economic Expectations	Sep	--	41.5	38.0	--
9/17	Bloomberg Consumer Comfort	9/13	--	47.7	47.8	--
9/18	Current Account Balance	2Q	-$160.0b	-$170.5b	~~-$104.2b~~	-$111.5b
9/18	Leading Index	Aug	1.3%	1.2%	~~1.4%~~	2.0%
9/18	U. of Mich. Sentiment	Sep P	75.0	78.9	74.1	--
9/18	U. of Mich. Current Conditions	Sep P	83.1	87.5	82.9	--
9/18	U. of Mich. Expectations	Sep P	67.2	73.3	68.5	--
9/18	U. of Mich. 1 Yr Inflation	Sep P	3.0%	2.7%	3.1%	--
9/18	U. of Mich. 5-10 Yr Inflation	Sep P	--	2.6%	2.7%	--
9/21	Chicago Fed Nat Activity Index	Aug	1.19	--	1.18	--
9/21	Household Change in Net Worth	2Q	--	--	-$6548b	--
9/22	Existing Home Sales	Aug	6.00m	--	5.86m	--
9/22	Richmond Fed Manufact. Index	Sep	12	--	18	--
9/23	FHFA House Price Index MoM	Jul	0.5%	--	0.9%	--
9/23	Markit US Manufacturing PMI	Sep P	53.5	--	53.1	--
9/23	Markit US Services PMI	Sep P	54.5	--	55.0	--
9/23	Markit US Composite PMI	Sep P	--	--	54.6	--
9/24	New Home Sales	Aug	891k	--	901k	--
9/24	Kansas City Fed Manf. Activity	Sep	14	--	14	--

MBS Prepayments[4]

	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	20.4	22.1	20.1	23.6	22.4	17.9
FH/FN 15y	16.3	19.5	23.3	25.8	18.7	20.6
GN 15y	22.6	13.8	16.5	16.2	14.4	13.4
FH/FN 20y	17.8	21.7	22.4	21.7	21.2	18.0
FH/FN 30y	14.9	21.7	35.1	37.3	35.4	30.8
GN 30y	11.5	18.2	28.1	25.6	28.5	22.7

Other Markets

		1Wk	Historical		
Index	Current	Chng	1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	104.39	(1.77)	105.41	108.08	108.45
Euro	1.18	(0.00)	1.19	1.09	1.10
Dollar Index	92.98	(0.35)	92.27	101.16	98.56
Major Stock Indices					
Dow Jones	27,852	186	27,778	19,899	27,147
S&P 500	3,345.6	4.7	3,389.8	2,398.1	3,006.7
NASDAQ	10,943.3	90	11,210.8	6,989.8	8,177.4
Commodities					
Gold	1,944.5	5.0	1,999.4	1,477.9	1,509.1
Crude Oil	41.20	3.87	42.89	20.37	58.11
Natural Gas	2.02	(0.25)	2.42	1.60	2.64
Wheat	559.0	25.3	507.5	508.3	489.5
Corn	376.3	11.3	327.0	335.3	371.3

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

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 09/18/2020 11:55AM