

Baker Market Update: Week in Preview

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Today has begun with the disappointing news that, just as hopes grow for a return to something that might normally be called normal, the Chicago Fed announced that, in August, a comprehensive measure it uses to gauge macro-economic vitality became less vital. The National Activity Index, a very comprehensive measure of the robustness of general economic activity was supposed to have gained a little strength in August with a move to 1.19 from 1.18, but instead fell to 0.79. This is a diffusion index with 85 inputs and while its value is still above zero and that represents expansion, it looks like that expansion might be slowing and no one wants to hear that. A little later this morning, we'll also learn from the Federal Reserve just what America's Household Change in Net Worth was for the year's second quarter.

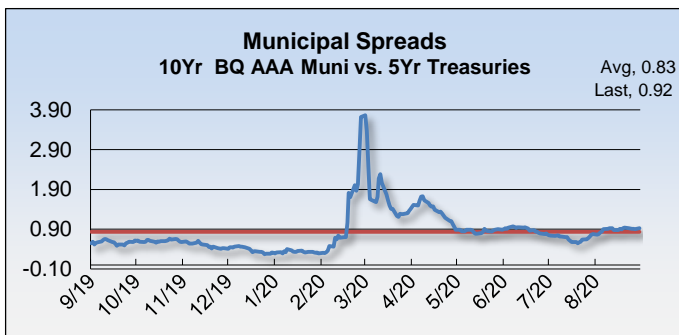
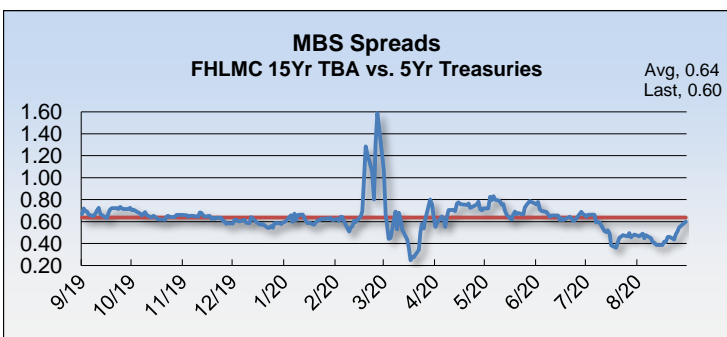
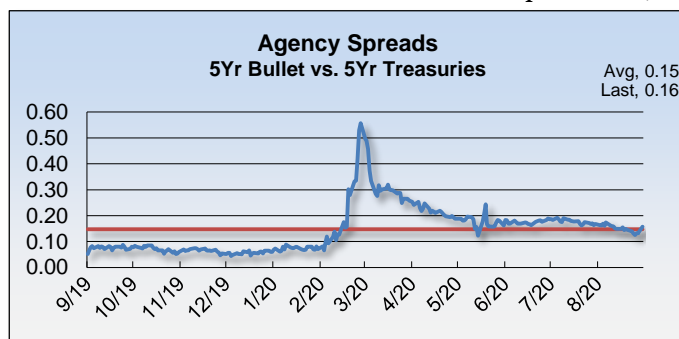
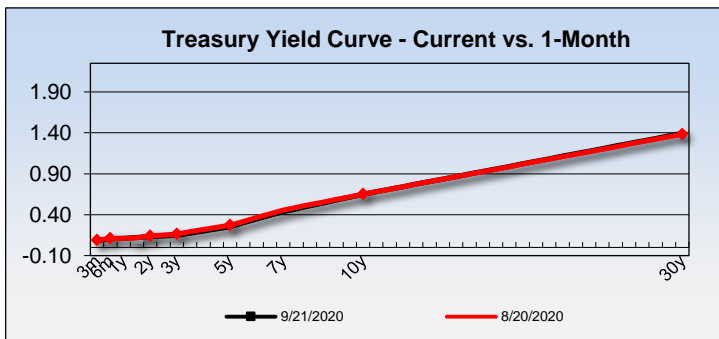
Tomorrow starts off with a report from the National Association of Realtors telling us about Existing Home Sales in August. Estimators are estimating about a 2.5% rise in that annualized sales rate. We'll also be hearing from the Richmond Fed that a slump may have occurred this month in its Manufacturing Index if pre-release estimates of a move from 18 to 12 prove to be accurate. Some observers may recall that last week, the New York Fed's Empire Manufacturing Index proved to be a significant surprise to the upside. The Treasury will also be having a surprisingly large auction of \$52B Two-Year notes tomorrow. That will happen while Fed Chairman Jerome Powell is busy on Capital Hill for a few days providing testimony about the central bank's efforts at pandemic relief. One might think his time would be better spent elsewhere. He might think his time would be better spent elsewhere.

Wednesday will bring us a little more news on conditions in the Housing Sector with the FHFA's House Price Index expected to show that, in July, prices rose 0.4% in a little slowdown from June's rise of 0.9%. We'll also see if Markit's Manufacturing PMI managed to avoid a slowdown this month by inching up to its forecasted value of 53.3 from August's 53.1. Every little bit helps. For the Service Sector, Markit's PMI is expected to inch the other way to 54.5 this month from August's 55. Also on Wednesday, the Treasury will be coming back to the market with \$53B Five-Year notes.

The Bureau of Labor Statistics will start off everyone's Thursday morning with the weekly count of Initial and Continuing Claims for unemployment benefits. For the week ending September 19th, new claims are expected to fall by 20k to 840k while Continuing Claims for the week ending September 12th should decline to 12.45M from 12.63M. Later that morning, the Census Bureau is expected to report that the annualized pace of New Home Sales cooled-off in August by 1.2% after July's scorching rise of almost 14%. The temperature of the Kansas City Fed's Manufacturing Index probably didn't change this month and they're expected to report that it's still the same 14 it was in August. After that, the Treasury will be raising another \$50B; this time through the sale of some Seven-Year notes. A lot of them.

The Census Bureau will wrap up the data-week on Friday morning with August's preliminary report on Durable Goods Orders. July's boost of over 11% is pretty hard to replicate and it probably wasn't with August's orders expected to post a 1.1% rise. For core Capital Goods Orders (non-defense, ex-aircraft and parts), that measure looks to have cooled off as well from July's 1.9% boost to just an 0.8% rise in August.

So far this morning, Treasury bond prices have moved up on the disappointing economic news along with COVID-related disappointment in general. The Ten-Year's yield is down to around 65 basis points, the Two-Year is unchanged at a lofty 13 basis points while the Long Bond rests comfortably at 1.40%. Gold is getting beat-up and this morning's \$35 slide (so far) has taken the price down to around \$1,916. Crude is off a bit but is still north of \$40 while equity markets look to be starting out the week by getting up on the wrong side of bed. Have a great week; 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	0.08	(0.03)	0.09	0.02	1.90	2yr	0.18	0.21	0.18	0.19	0.28	2Yr	0.18	0.19	0.18	-
6mo	0.11	(0.01)	0.11	0.01	1.91	3yr	0.25	0.22	0.20	0.21	0.39	3Yr	0.27	0.29	0.20	0.25
1yr	0.11	(0.02)	0.12	0.12	1.83	5yr	0.43	0.32	0.34	0.36	0.61	5Yr	0.51	0.53	0.53	0.50
2yr	0.13	(0.01)	0.14	0.32	1.69	7yr	0.60	0.46	0.69	0.73	0.81	7Yr	0.75	0.77	0.76	0.74
3yr	0.15	(0.01)	0.16	0.37	1.66	10yr	1.00	0.66	1.18	1.25	1.33	10Yr	1.09	1.09	1.11	1.08
5yr	0.25	(0.01)	0.27	0.46	1.60	15yr	1.40	0.87	1.64	1.74	1.86	October TBA MBS				
7yr	0.44	(0.02)	0.44	0.73	1.67	20yr	1.81	0.98	1.93	2.06	2.35	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.65	(0.02)	0.63	0.85	1.72	25yr	2.22	1.02	2.07	2.21	2.41	2.00	0.94	3.8y	1.42	
30yr	1.39	(0.02)	1.34	1.42	2.16	30yr		1.04	2.21	2.35	2.46	2.50	1.20	3.6y		
												3.00	1.17	2.9y	1.12	2.7y
												3.50	1.17	2.7y	0.93	2.2y
												4.00			0.86	2.2y
												4.50			0.90	2.4y

* Interpolated

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	5.00
Sec. O.N. Finance	0.09	--	0.09	0.10	--
1 Month LIBOR	0.16	0.00	0.16	0.77	2.04
3 Month LIBOR	0.23	(0.03)	0.25	1.12	2.16
6 Month LIBOR	0.28	(0.01)	0.32	0.95	2.08
1 Year LIBOR	0.37	(0.04)	0.45	0.89	2.06
6 Month CD	0.30	0.10	0.19	1.00	2.11
1 Year CMT	0.13	--	0.13	0.21	1.87
REPO O/N	0.12	0.01	0.12	0.08	2.13
REPO 1Wk	0.12	--	0.13	0.51	1.89
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	0.34	0.43
2yr	0.34	0.51	0.45
3yr	0.40	0.59	0.52
4yr	0.47	0.67	0.59
5yr	0.58	0.78	0.70
7yr	0.81	1.05	0.98
10yr	1.15	1.43	1.30
5yr Am	0.44		0.63
10yr Am	0.82		1.03

Fed Fund Futures		
Maturity	Rate	
Sep-20	0.090	
Oct-20	0.080	
Nov-20	0.075	
Dec-20	0.070	
Jan-21	0.060	
Feb-21	0.055	
Mar-21	0.050	
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
9/21	Chicago Fed Nat Activity Index	Aug	1.19	0.79	1.18	2.54
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	12.0	--	18.0	--
9/23	MBA Mortgage Applications	9/18	--	--	-2.5%	--
9/23	FHFA House Price Index MoM	Jul	0.4%	--	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	Initial Jobless Claims	9/19	840k	--	860k	--
9/24	Continuing Claims	9/12	12400k	--	12628k	--
9/24	Bloomberg Consumer Comfort	9/20	--	--	47.7	--
9/24	New Home Sales	Aug	890k	--	901k	--
9/25	Durables Ex Transportation	Aug P	1.1%	--	2.6%	--
9/25	Cap Goods Ship Nondef Ex Air	Aug P	1.0%	--	2.4%	--
9/29	Advance Goods Trade Balance	Aug	-\$81.8b	--	-\$79.3b	--
9/29	S&P CoreLogic CS 20-City YoY NSA	Jul	--	--	3.46%	--
9/29	S&P CoreLogic CS US HPI YoY NSA	Jul	--	--	4.29%	--
9/29	Conf. Board Consumer Confidence	Sep	91.0	--	84.8	--
9/29	Conf. Board Present Situation	Sep	--	--	84.2	--
9/30	ADP Employment Change	Sep	650k	--	428k	--
9/30	GDP Annualized QoQ	2Q T	-31.6%	--	-31.7%	--
9/30	Personal Consumption	2Q T	--	--	-34.1%	--
9/30	GDP Price Index	2Q T	--	--	-2.0%	--
9/30	Core PCE QoQ	2Q T	--	--	-1.0%	--
9/30	MNI Chicago PMI	Sep	51.9	--	51.2	--
9/30	Pending Home Sales NSA YoY	Aug	--	--	15.4%	--
10/1	Challenger Job Cuts YoY	Sep	--	--	116.5%	--
10/1	Personal Income	Aug	-2.6%	--	0.4%	--
10/1	Real Personal Spending	Aug	--	--	1.6%	--
10/1	PCE Deflator YoY	Aug	--	--	1.0%	--
10/1	PCE Core Deflator YoY	Aug	1.5%	--	1.3%	--
10/1	ISM Manufacturing	Sep	55.5	--	56.0	--
10/1	ISM Prices Paid	Sep	--	--	59.5	--
10/1	ISM Employment	Sep	--	--	46.4	--
10/2	Change in Nonfarm Payrolls	Sep	900k	--	1371k	--
10/2	Two-Month Payroll Net Revision	Sep	--	--	-39k	--
10/2	Change in Private Payrolls	Sep	938k	--	1027k	--
10/2	Change in Manufact. Payrolls	Sep	50k	--	29k	--
10/2	Unemployment Rate	Sep	8.2%	--	8.4%	--
10/2	Average Hourly Earnings YoY	Sep	4.8%	--	4.7%	--
10/2	Average Weekly Hours All Employees	Sep	34.6	--	34.6	--
10/2	Labor Force Participation Rate	Sep	--	--	61.7%	--
10/2	Underemployment Rate	Sep	--	--	14.2%	--
10/2	Factory Orders Ex Trans	Aug	--	--	2.1%	--
10/5	ISM Services Index	Sep	--	--	56.9	--
10/6	JOLTS Job Openings	Aug	--	--	6618	--

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	20.1	21.9	20.0	23.4	22.4	17.9
FH/FN 15y	15.9	19.3	23.1	25.2	18.7	20.6
GN 15y	21.3	13.7	16.4	16.2	14.3	13.4
FH/FN 20y	17.2	21.6	22.6	21.6	21.2	18.1
FH/FN 30y	14.8	21.3	34.0	36.7	34.7	30.9
GN 30y	11.0	17.2	27.6	24.5	28.7	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	104.57	(1.16)	105.80	111.23	107.55
Euro	1.18	(0.01)	1.18	1.07	1.10
Dollar Index	93.56	0.51	93.25	102.82	98.51
Major Stock Indices					
Dow Jones	27,018	(976)	27,930	19,174	26,935
S&P 500	3,262.2	(121.4)	3,397.2	2,304.9	2,992.1
NASDAQ	10,628.8	(428)	11,311.8	6,879.5	8,117.7
Commodities					
Gold	1,911.9	(42.8)	1,934.6	1,484.6	1,508.0
Crude Oil	39.80	2.54	42.34	22.43	58.09
Natural Gas	1.90	(0.41)	2.45	1.60	2.53
Wheat	566.0	17.5	527.3	539.3	484.3
Corn	374.3	16.8	327.0	343.8	370.8

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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