

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



COVID-19 has truly proven to be a flu for all seasons. The economic shutdown that began with the vernal equinox and then took us through the summer solstice, is still mostly with us as this week ushers in the beginning of autumn. Those tender green leaves that were just emerging when the pandemic-induced lockdown began, have now turned into fall's colorful signal that it will soon be time to get out the rake. It might also be a good time to get out the vaccine, but science is no slave to the calendar. American citizens, though, appear to be slaves to a bumbling Congress that can't get out of its own way long enough to pass another stimulus bill that, according to Jerome Powell's comments to that very same inept legislative body, is sorely needed.

This week, Chairman Powell, along with other Fed officials and Treasury Secretary Mnuchin, trudged up to Capitol Hill where they tried explaining to legislative leaders that, if American households and businesses don't get some more help, things could go south in a hurry. Okay, they may not have used those exact words, but that's what they meant.

Monday's report from the Chicago Fed might mean that things have already started to head that way with its National Activity Index slipping last month to a barely positive 0.79 from July's upwardly revised 2.54. This comprehensive index provides a very broad measure of national economic vitality across all sectors and its decline could be a sign of a long, hard winter ahead of us. In a counter indication, the Richmond Fed reported on Tuesday that its Manufacturing Index surprised to the upside this month with a move to 21 from 18 just as it was expected to fall to 12. Some analysts point to inventory replenishment as the reason behind the unexpected result and fear that things may soon cool off.

One result that did come in as expected was from the Census Bureau telling us that Existing Home Sales rose by 2.4% in August. That's a slowdown from July's burst of almost 25%, but still describes a very robust housing market. The report also told us that the median sales price jumped 1.7% for the month, taking the year-over-year price gain to 11.4%. In another sign that the house-buying season may still with us for a while, the FHFA reported that its House Price Index rose 1% in July when only half of that move was forecast.

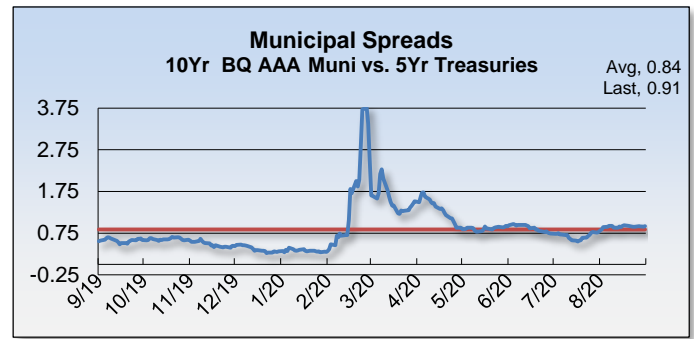
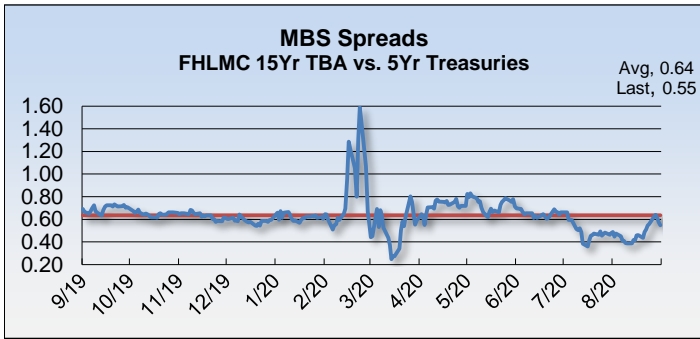
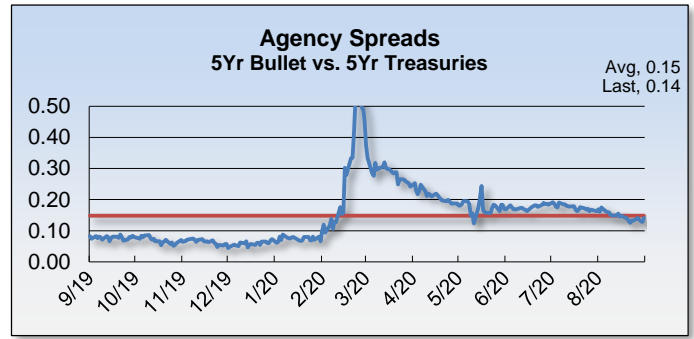
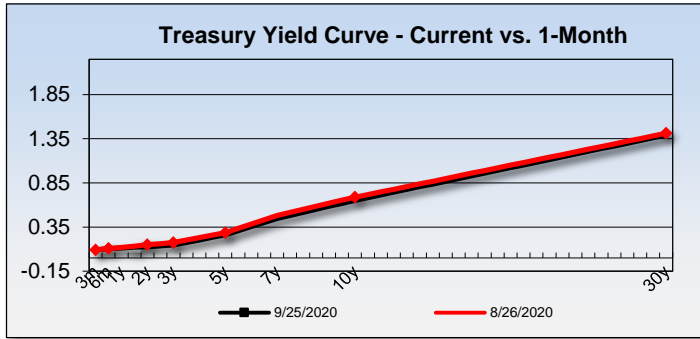
Wednesday brought investors some mixed news from Markit Services with a report that its PMI for Manufacturing improved to 53.5 from 53.1 while a similar measure for the Services sector fell to 54.6 from 55.

Something that we all want to see fall is the weekly count of Initial Jobless Claims. But, for the week ending September 19th, they didn't. The rise to 870k from an upwardly revised 866k was supposed to be a fall to 840k. These stubbornly high numbers were referenced by our fiscal and monetary policy-makers in their remarks to Congress, but there's been no sign that they were heard. The picture for Continuing Claims was a little brighter as that total fell to 12.3M from 12.7M for the week ending September 12th. Forecasters had predicted a smaller decline to 12.6M.

The National Association of Realtors heard about the Census Bureau's report on Existing Home Sales and, not to be outdone, reported yesterday that New Home Sales rose by a greater-than-expected 4.6% in August. And, that was after July's annualized tally of 901k was revised to 965k. But, leave it to the Kansas City Fed to tamp down the giddiness with the announcement that its Manufacturing Index slipped unexpectedly to a value of 11 this month after rising to 14 in August.

This morning, the Census Bureau, was back at it with a report showing that Durable Goods Orders came in a little light last month with a muted rise of 0.4% against an expected gain of 1.5%. July's unexpected burst of 11.4% was also unexpectedly revised to an even bigger burst of 11.7%. Core Capital Goods Orders managed to beat the estimates of a 1% August rise by coming in with a 1.8% boost. July's boost of 2.4% was boosted further to 2.8%. Living in the recent past might look better than living in the near future as many decimated measurements have experienced their bounce-back and may now have to endure a slow crawl back to prosperity lost. Especially if our aforementioned legislators can't quit fussing long enough to figure out a way to help all the people that Jerome and Steve want to help.

That may be a sign, one supposes, that all of us are slaves to the absurdity of election season. Some might think that the announcement by the Pac 12 that they're going to start their football season in November is a little absurd, but at least they're trying. Even with most of the Conference still on fire! Maybe that'll light a fire under Congress. 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	0.09	0.00	0.10	-0.04	1.89	2yr	0.17	0.22	0.18	0.19	0.28	2Yr	0.18	0.19	0.18	-
6mo	0.10	(0.01)	0.11	0.03	1.90	3yr	0.25	0.23	0.20	0.21	0.39	3Yr	0.27	0.29	0.20	0.25
1yr	0.11	(0.01)	0.12	0.18	1.81	5yr	0.42	0.33	0.34	0.36	0.61	5Yr	0.52	0.54	0.53	0.50
2yr	0.13	(0.01)	0.15	0.33	1.68	7yr	0.59	0.48	0.67	0.72	0.95	7Yr	0.76	0.78	0.78	0.75
3yr	0.15	(0.02)	0.18	0.39	1.66	10yr	1.00	0.68	1.16	1.24	1.34	10Yr	1.10	1.11	1.13	1.09
5yr	0.26	(0.02)	0.29	0.53	1.61	15yr	1.40	0.89	1.62	1.73	1.83	October TBA MBS				
7yr	0.45	(0.03)	0.49	0.75	1.67	20yr	1.80	1.00	1.92	2.04	2.30	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.65	(0.04)	0.68	0.87	1.74	25yr	2.21	1.04	2.07	2.20	2.36	2.00	0.90	3.7y	1.42	
30yr	1.39	(0.06)	1.39	1.45	2.19	30yr	2.21	1.06	2.21	2.35	2.41	2.50	1.17	3.5y		
												3.00	1.14	2.8y	1.10	2.7y
												3.50	1.17	2.7y	0.93	2.2y
												4.00			0.86	2.2y
												4.50			0.95	2.5y

* 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	2.50
2ndary Discount	0.75	--	0.75	0.75	3.00
Prime Rate	3.25	--	3.25	3.25	5.00
Sec. O.N. Finance	0.07	(0.03)	0.08	0.01	--
1 Month LIBOR	0.15	(0.00)	0.18	0.95	2.02
3 Month LIBOR	0.23	(0.01)	0.25	1.22	2.11
6 Month LIBOR	0.27	0.00	0.31	0.97	2.06
1 Year LIBOR	0.37	(0.01)	0.44	0.94	2.03
6 Month CD	0.28	(0.02)	0.20	0.93	1.96
1 Year CMT	0.12	--	0.14	0.25	1.78
REPO O/N	0.10	(0.02)	0.11	0.12	1.79
REPO 1Wk	0.09	--	0.13	0.12	1.92
CoF Federal	1.053	--	1.107	1.888	2.200
11th D. CoF (Jul)	0.653	--	0.682	0.984	1.155

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.26	0.38	0.39
6mo	0.28	0.39	0.41
1yr	0.32	0.33	0.43
2yr	0.33	0.51	0.44
3yr	0.39	0.58	0.51
4yr	0.44	0.65	0.57
5yr	0.59	0.80	0.71
7yr	0.81	1.06	0.94
10yr	1.13	1.41	1.27
5yr Am	0.44		0.63
10yr Am	0.82		1.01

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

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	--	\$7607b	-\$6548b	-\$7229b
9/22	Existing Home Sales	Aug	6.00m	6.00m	5.86m	--
9/22	Richmond Fed Manufact. Index	Sep	12.0	21.0	18.0	--
9/23	MBA Mortgage Applications	9/18	--	6.8%	-2.5%	--
9/23	FHFA House Price Index MoM	Jul	0.5%	1.0%	0.9%	1.0%
9/23	Markit US Manufacturing PMI	Sep P	53.5	53.5	53.1	--
9/23	Markit US Services PMI	Sep P	54.7	54.6	55.0	--
9/23	Markit US Composite PMI	Sep P	--	54.4	54.6	--
9/24	Initial Jobless Claims	9/19	840k	870k	860k	866k
9/24	Continuing Claims	9/12	12275k	12580k	12628k	12747k
9/24	Bloomberg Consumer Comfort	9/20	--	49.8	47.7	47.9
9/24	New Home Sales	Aug	890k	1011k	908k	965k
9/25	Durables Ex Transportation	Aug P	1.0%	0.4%	2.6%	3.2%
9/25	Cap Goods Ship Nondef Ex Air	Aug P	0.8%	1.5%	2.4%	2.8%
9/29	Advance Goods Trade Balance	Aug	-\$81.5b	--	-\$79.3b	--
9/29	Wholesale Inventories MoM	Aug P	--	--	-0.3%	--
9/29	Retail Inventories MoM	Aug	--	--	1.2%	--
9/29	S&P CoreLogic CS 20-City YoY NSA	Jul	3.60%	--	3.46%	--
9/29	S&P CoreLogic CS US HPI YoY NSA	Jul	--	--	4.29%	--
9/29	Conf. Board Consumer Confidence	Sep	90.0	--	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	-31.7%	--	-31.7%	--
9/30	Personal Consumption	2Q T	-34.1%	--	-34.1%	--
9/30	GDP Price Index	2Q T	-2.0%	--	-2.0%	--
9/30	Core PCE QoQ	2Q T	-1.0%	--	-1.0%	--
9/30	MNI Chicago PMI	Sep	52.0	--	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	-2.5%	--	0.4%	--
10/1	Real Personal Spending	Aug	0.7%	--	1.6%	--
10/1	PCE Deflator YoY	Aug	1.2%	--	1.0%	--
10/1	PCE Core Deflator YoY	Aug	1.4%	--	1.3%	--
10/1	ISM Manufacturing	Sep	56.0	--	56.0	--
10/1	ISM New Orders	Sep	--	--	67.6	--
10/1	ISM Prices Paid	Sep	59.0	--	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	875k	--	1027k	--
10/2	Change in Manufact. Payrolls	Sep	40k	--	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%	--

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	22.4	20.2	23.6	22.5	17.9
FH/FN 15y	16.2	19.7	23.3	25.3	18.7	20.6
GN 15y	21.3	13.7	16.4	16.2	14.3	13.4
FH/FN 20y	17.6	21.6	22.4	21.7	21.2	18.0
FH/FN 30y	14.9	21.6	34.4	36.6	34.7	30.8
GN 30y	11.2	17.2	28.2	24.5	28.5	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.66	1.09	106.39	111.21	107.77
Euro	1.16	(0.02)	1.18	1.09	1.09
Dollar Index	94.65	1.72	93.02	101.05	99.04
Major Stock Indices					
Dow Jones	26,875	(783)	28,248	21,201	26,971
S&P 500	3,252.1	(67.4)	3,443.6	2,475.6	2,984.9
NASDAQ	10,758.7	(35)	11,466.5	7,384.3	8,077.4
Commodities					
Gold	1,857.3	(95.9)	1,911.8	1,633.4	1,505.1
Crude Oil	40.04	(1.07)	43.35	24.49	56.49
Natural Gas	2.21	0.16	2.49	1.66	2.50
Wheat	545.5	-29.5	527.3	580.0	477.3
Corn	366.5	-12.0	340.8	348.5	374.3

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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