

## Baker Market Update: Week in Preview

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Today is the last day to change your Medicare coverage. Will it also be the Ten-Year's last day to yield less than 1%? Probably not, but it was sneaking up on it last week! This morning, concerns over a looming breakdown in Brexit negotiations between the United Kingdom and the European Union have helped Treasury prices claw back a little of the ground lost last week. The Ten-Year is hovering around 94 basis points in early trading as the Long Bond rests at around 1.70%. No numbers are scheduled for release this morning, but the possibility of a fiscal stimulus deal along with the probability that the FDA will this week approve Pfizer's vaccine are all affecting investors' outlooks.

Later this afternoon, today's only bit of data will come from the Federal Reserve with its October report for Consumer Credit. Surveys suggest that those consumer borrowings grew \$15.5T and while that sounds like a lot, it's less than the prior month's growth of \$16.2T. Still sounds like a lot.

Tomorrow kicks off with the National Federation of Independent Businesses' Small Business Optimism Index. Not surprisingly, analysts are expecting that, in November, it declined to 102.5 from 104. Does anyone think it's gotten any better this month? The Bureau of Labor Statistics will also release some third-quarter data for Non-Farm Productivity showing that it probably grew 4.9% while Unit Labor Costs for the same period fell 8.9%. That's a pretty startling combination of inflation-influencing variables even if the data is a little stale.

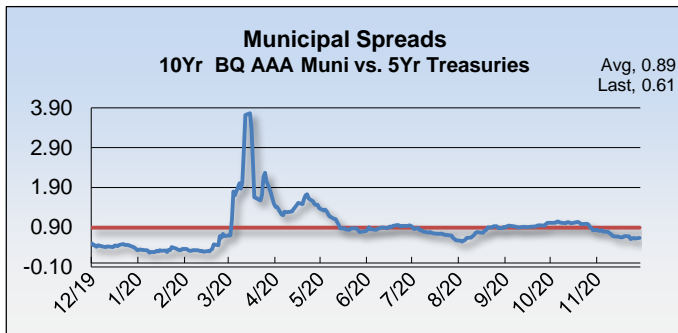
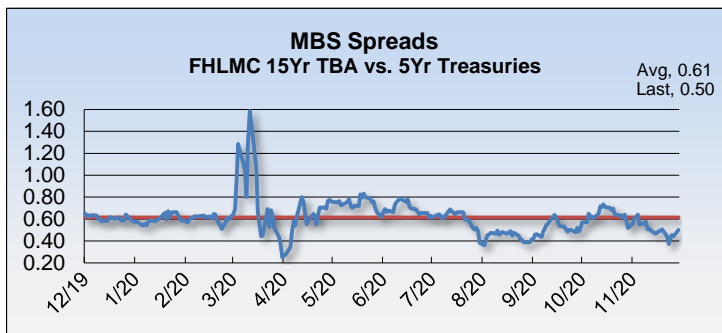
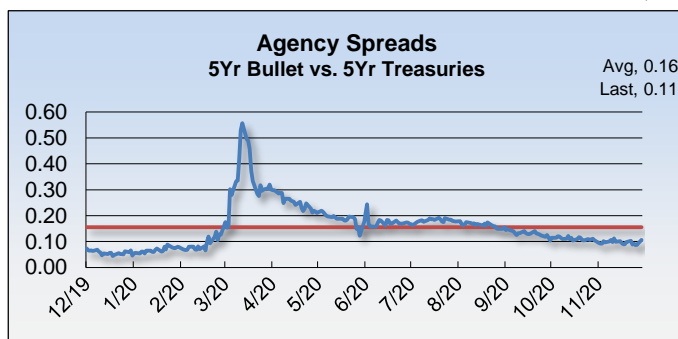
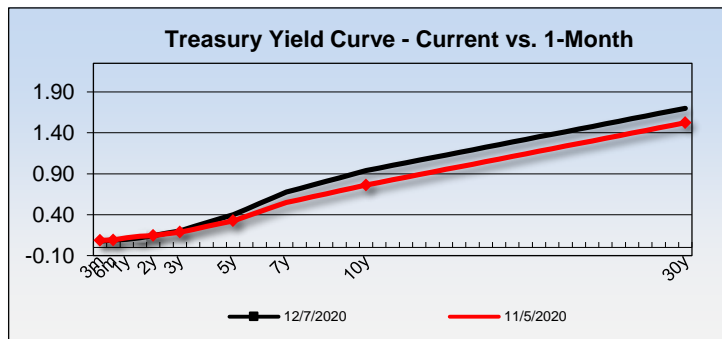
On Wednesday, the BLS will release its November Job Openings and Labor Turnover Survey (JOLTS) and it is forecast to show an unwelcome decline in the number of new Job Openings from 6.43M to 6.32M. That may not seem like a big drop, but it needs to be going the other way.

On Thursday morning, we'll once again get the weekly Jobless Claims numbers and it doesn't look like last week's decline from the prior week is quite ready to become a trend. For the week ending December 5th, Initial Claims are expected to have grown by 725k, slightly up from the prior week's 712k. According to analysts, Continuing Claims for the week ending November 28th probably fell to 5.27M from 5.52M. We'll also get a look at inflation through the eyes of the Consumer Price Index when the BLS is expected to tell us that headline CPI grew 0.1% last month as the year-over-year rate fell to 1.1% from 1.2%. Without food and energy, core CPI may have also risen by 0.1% but that still probably left the twelve-month rate at an unchanged 1.6%.

On Friday morning, the other inflation show will drop when the BLS reports changes in "wholesale" inflation through its Producer Price Index. That measure likely grew 0.1% last month helping to push the headline year-over-year rate to 0.7% from 0.5%. Without food and energy, core PPI likely grew by 0.2% with the year-over-year pace making a strong advance to 1.5% from 1.1%. Eventually, changes in producer prices become changes in consumer prices as long as those who sell things have pricing power and demand does not decline. Opinions vary on the condition of those two conditions.

The condition that consumers find themselves in may become clearer on Friday when the University of Michigan is expected to tell us that its Index of Consumer Sentiment fell to 76 this month from November's 76.9. That seems like a pretty small drop considering how the season is going for the Wolverines, but this is a preliminary report that won't be finalized until the 23rd. It could get worse. Or better. 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.08	(0.00)	0.09	0.15	1.52	2yr	0.19	0.23	0.21	0.22	0.24	2Yr	0.19	0.18	0.16	-
6mo	0.09	(0.00)	0.10	0.18	1.54	3yr	0.27	0.27	0.24	0.25	0.35	3Yr	0.29	0.28	0.20	0.26
1yr	0.10	(0.01)	0.12	0.18	1.55	5yr	0.52	0.46	0.34	0.36	0.58	5Yr	0.57	0.56	0.55	0.53
2yr	0.14	(0.00)	0.15	0.21	1.62	7yr	0.73	0.68	0.59	0.63	0.90	7Yr	0.87	0.86	0.85	0.82
3yr	0.20	0.01	0.20	0.28	1.63	10yr	1.21	0.94	1.01	1.07	1.44	10Yr	1.22	1.24	1.23	1.20
5yr	0.40	0.04	0.36	0.46	1.66	15yr	1.70	1.20	1.40	1.49	2.02	January TBA MBS				
7yr	0.68	0.06	0.59	0.70	1.77	20yr	2.19	1.33	1.68	1.79	2.58	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.94	0.10	0.82	0.90	1.84	25yr	2.68	1.39	1.83	1.95	2.64	2.00	0.56	3.0y	1.24	
30yr	1.70	0.13	1.60	1.67	2.28	30yr	2.68	1.41	1.99	2.12	2.69	2.50	0.65	2.4y		
												3.00	0.73	2.4y	1.09	2.8y
												3.50	0.89	2.4y	1.08	2.6y
												4.00			1.25	2.7y
												4.50			1.44	3.0y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	1.75
Primary Discount	0.25	--	0.25	0.25	2.25
2ndary Discount	0.75	--	0.75	0.75	2.75
Prime Rate	3.25	--	3.25	3.25	4.75
Sec. O.N. Finance	0.09	0.01	0.10	0.07	--
1 Month LIBOR	0.15	(0.00)	0.14	0.18	1.71
3 Month LIBOR	0.23	0.00	0.23	0.32	1.89
6 Month LIBOR	0.26	(0.00)	0.24	0.48	1.89
1 Year LIBOR	0.34	0.01	0.33	0.63	1.92
6 Month CD	0.22	(0.07)	0.25	0.40	1.85
1 Year CMT	0.11	--	0.12	0.17	1.56
REPO O/N	0.10	0.03	0.12	0.11	1.54
REPO 1Wk	0.13	0.05	0.13	0.08	1.59
CoF Federal	1.003	--	1.019	1.333	2.068
11th D. CoF (Oct)	0.503	--	0.523	0.740	1.100

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.36	0.34
6mo	0.26	0.37	0.31
1yr	0.30	0.31	0.34
2yr	0.35	0.53	0.39
3yr	0.41	0.62	0.47
4yr	0.53	0.75	0.59
5yr	0.65	0.88	0.71
7yr	0.97	1.23	1.03
10yr	1.34	1.62	1.40
5yr Am	0.48		0.61
10yr Am	0.95		1.08

Fed Fund Futures	
Maturity	Rate
Dec-20	0.085
Jan-21	0.080
Feb-21	0.075
Mar-21	0.075
Apr-21	0.075
May-21	0.075
Jun-21	0.070
Jul-21	0.075
Aug-21	0.075
Sep-21	0.080
Oct-21	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/7	Consumer Credit	Oct	\$15.500b	--	\$16.214b	--
12/8	NFIB Small Business Optimism	Nov	102.5	--	104.0	--
12/8	Nonfarm Productivity	3Q F	4.9%	--	4.9%	--
12/8	Unit Labor Costs	3Q F	-8.9%	--	-8.9%	--
12/9	MBA Mortgage Applications	12/4	--	--	-0.6%	--
12/9	Wholesale Trade Sales MoM	Oct	--	--	0.1%	--
12/9	Wholesale Inventories MoM	Oct F	0.9%	--	0.9%	--
12/9	JOLTS Job Openings	Oct	6300	--	6436	--
12/10	Initial Jobless Claims	12/5	725k	--	712k	--
12/10	Continuing Claims	11/28	5210k	--	5520k	--
12/10	CPI YoY	Nov	1.1%	--	1.2%	--
12/10	CPI Ex Food and Energy YoY	Nov	1.6%	--	1.6%	--
12/10	CPI Index NSA	Nov	260.09	--	260.39	--
12/10	CPI Core Index SA	Nov	269.6	--	269.3	--
12/10	Real Avg Hourly Earning YoY	Nov	--	--	3.2%	--
12/10	Real Avg Weekly Earnings YoY	Nov	--	--	4.4%	--
12/10	Bloomberg Consumer Comfort	12/6	--	--	49.3	--
12/10	Household Change in Net Worth	3Q	--	--	\$7607b	--
12/10	Monthly Budget Statement	Nov	-\$200.0b	--	-\$284.1b	--
12/11	PPI Final Demand YoY	Nov	0.7%	--	0.5%	--
12/11	PPI Ex Food and Energy YoY	Nov	1.5%	--	1.1%	--
12/11	PPI Ex Food, Energy, Trade YoY	Nov	--	--	0.8%	--
12/11	U. of Mich. Sentiment	Dec P	76.0	--	76.9	--
12/11	U. of Mich. Current Conditions	Dec P	--	--	87.0	--
12/11	U. of Mich. 1 Yr Inflation	Dec P	--	--	2.8%	--
12/15	Empire Manufacturing	Dec	8.1	--	6.3	--
12/15	Import Price Index YoY	Nov	--	--	-1.0%	--
12/15	Export Price Index YoY	Nov	--	--	-1.6%	--
12/15	Capacity Utilization	Nov	73.0%	--	72.8%	--
12/15	Manufacturing (SIC) Production	Nov	0.2%	--	1.0%	--
12/15	Net Long-term TIC Flows	Oct	--	--	\$108.9b	--
12/15	Total Net TIC Flows	Oct	--	--	-\$79.9b	--
12/16	Retail Sales Ex Auto and Gas	Nov	0.3%	--	0.2%	--
12/16	Retail Sales Control Group	Nov	--	--	0.1%	--
12/16	Markit US Manufacturing PMI	Dec P	--	--	56.7	--
12/16	Markit US Composite PMI	Dec P	--	--	58.6	--
12/16	Business Inventories	Oct	0.6%	--	0.7%	--
12/16	NAHB Housing Market Index	Dec	88	--	90	--
12/16	FOMC Rate Decision (Upper Bound)	12/16	0.25%	--	0.25%	--
12/16	FOMC Rate Decision (Lower Bound)	12/16	0.00%	--	0.00%	--
12/16	Interest Rate on Excess Reserves	12/17	--	--	0.10%	--
12/17	Building Permits	Nov	1560k	--	1545k	1544k
12/17	Philadelphia Fed Business Outlook	Dec	20.0	--	26.3	--
12/17	Housing Starts	Nov	1530k	--	1530k	--
12/17	Bloomberg Economic Expectations	Dec	--	--	43	--
12/18	Current Account Balance	3Q	-\$191.6b	--	-\$170.5b	--
12/18	Leading Index	Nov	0.4%	--	0.7%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.9	23.9	26.7	29.9	28.2	13.8
FH/FN 15y	16.1	34.7	43.7	48.0	21.6	21.2
GN 15y	25.6	20.6	20.5	20.6	18.7	17.7
FH/FN 20y	52.8	33.2	34.7	32.9	31.3	24.3
FH/FN 30y	7.8	45.7	58.3	58.0	59.0	51.9
GN 30y	13.5	22.4	38.9	52.2	42.4	31.1

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	18.8	20.4	21.0	23.8	26.0	19.9
FH/FN 15y	19.7	24.3	26.1	27.1	21.6	20.1
GN 15y	14.5	15.4	16.3	15.2	13.9	13.1
FH/FN 20y	24.5	25.5	20.2	19.1	19.5	17.6
FH/FN 30y	14.6	22.4	30.1	31.3	31.2	27.5
GN 30y	10.9	14.1	25.7	31.2	34.1	15.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	104.04	(0.27)	105.38	108.43	108.56
Euro	1.21	0.02	1.18	1.13	1.11
Dollar Index	90.83	(1.04)	92.23	96.94	97.70
<b>Major Stock Indices</b>					
Dow Jones	30,218	308	28,323	27,111	28,015
S&P 500	3,699.1	60.8	3,509.4	3,193.9	3,145.9
NASDAQ	12,464.2	258	11,895.2	9,814.1	8,656.5
<b>Commodities</b>					
Gold	1,838.0	62.3	1,951.7	1,676.2	1,459.1
Crude Oil	45.74	0.40	37.14	39.55	59.20
Natural Gas	2.40	(0.48)	2.89	1.78	2.33
Wheat	560.0	-20.3	602.0	515.3	532.5
Corn	413.0	-6.8	406.8	331.3	366.5

**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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