

## Baker Market Update: Week in Review

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Readers of a certain age may recall lining up as a child in order to receive Jonas Salk's breakthrough polio vaccine. They may also recall it was administered through the ingestion of a sugar cube. No post-injection Tootsie-Roll Pop was needed, but ice cream was involved. Ah, the halcyon days of youth. Still, the imminent approval by the FDA of the Pfizer vaccine could mean that some Americans may start getting inoculated with a sub-zero shot-in-the-arm as early as next week, and that means the bad old days of pandemic paranoia may soon be behind us. Soon, but not quite yet. It may be some months before the majority of Americans are actually vaccinated and the interim could still prove to be pretty rocky as the number of new cases soar and free will is institutionally suppressed.

That suppression may be why the National Federation of Independent Businesses reported on Monday that its Small Business Optimism Index plunged to 101.5 last month from 104 when it was only supposed to fall to 102.5. The prospect of continued lockdowns and the imposition of some new ones do not promote much in the way of glad tidings for the owners of many small businesses. For those that consume the services and products of small businesses, the level of that consumption may decline if it follows the recent path of consumer credit. The Federal Reserve reported on Monday that Consumer Credit grew by \$7.22B in October in a big come-down from the prior month's downwardly revised \$15B. Analysts were expecting a \$15.5B increase; more than double the actual outcome.

The outcome of some third quarter efforts came our way when the BLS reported that, for Q3, Unit Labor Costs fell by 6.6%. That's some pretty deflationary news, but not as deflationary as the predicted fall of 8.9% would have been. For the same period, we also learned that Nonfarm Productivity grew by 4.6% against an expected 4.9% rise. Still, the combination of rising productivity and falling labor costs do not describe an environment ripe for inflation.

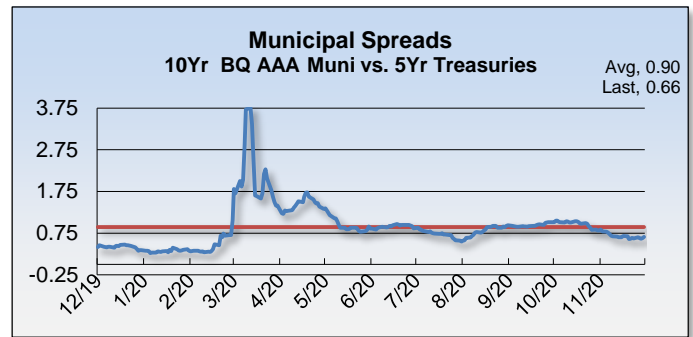
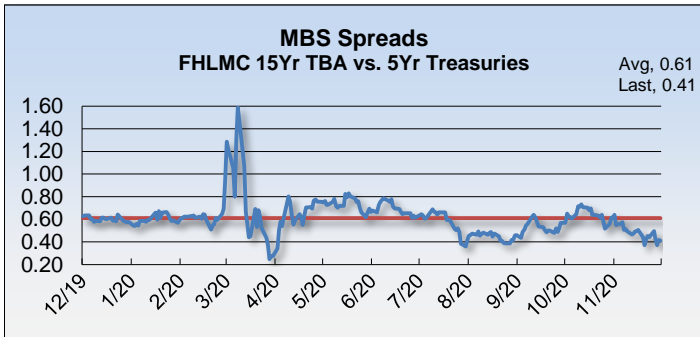
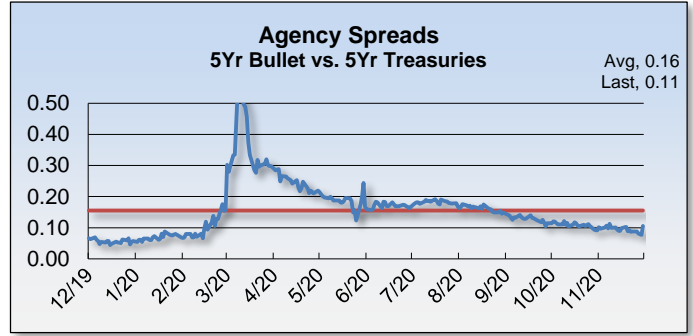
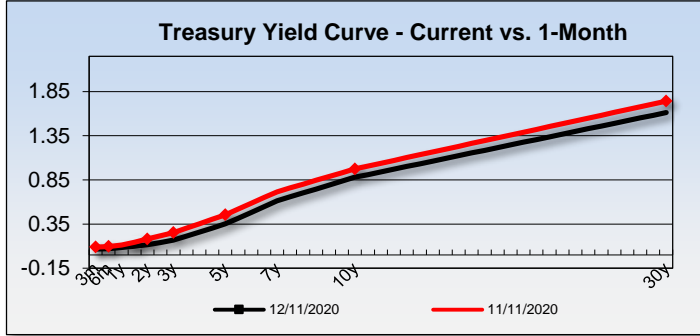
We learned a little bit more about the inflationary environment when, yesterday, the BLS reported that its Consumer Price Index rose by 0.2% last month after being flat in October. The year-over-year rate for CPI stayed unchanged at 1.2%. Without food and energy, core CPI also rose by 0.2% in November but that still left the year-over-year rate unchanged at 1.6%. This morning, the BLS followed up with its Producer Price Index measure of "wholesale" inflation. Last month, headline PPI rose by 0.1% and that was down a bit from the prior month's rise of 0.3%. Year-over-year, PPI's growth rate rose to 0.8% in a significant increase from the prior month's twelve-month rate of 0.5%. Without food and energy, core PPI rose by 0.1% for the month with the year-over-year pace rising even more to 1.4% from 1.1%. The variables affecting inflation are many and varied and the always tricky process of measuring them has become even trickier amid the economic convolutions brought on by the pandemic and the policies it has promulgated. The path of inflation is a hotly debated topic these days with many unknowns. What is known is that the Fed has already told us that it will be just fine with letting it burn for a while even if it does manage to catch fire. But, with over \$17T worth of negative-yielding bonds trading around the globe, the traditional signals of future inflation are difficult to discern. For anyone who doesn't believe that central bank policies have distorted the bond market's risk-pricing mechanisms, just take a look at the sovereign debt of Greece. That nation has a credit rating of BB- and its Five-Year sovereign note is yielding around 2 basis points. How many can we put you down for?

China is in the news for lots of reasons these days, and an infiltration into some of its inflation data is pretty eye-opening. In November, Chinese CPI fell 0.6% following a decline of 0.3% in October. Year-over-year, China's headline CPI stands at a deflationary minus 0.5%. If the world's second largest economy is deflating, what might that mean for the world's largest economy?

Yesterday, the BLS poured some cold water on the labor market situation when it reported that, for the week ending December 5th, Initial Jobless Claims jumped to a weekly total of 853k when only 725k were expected. Continuing Claims were another disappointment with a rise to 5.76M from the prior week's 5.52M. Experts were expecting a drop to 5.21M. Maybe someone's expectations are just a little too high. Better news from the BLS came through this week's JOLTS report for October. The Job Openings and Labor Turnover Survey revealed that the number of unfilled positions rose to 6.65M from 6.49M when a drop to 6.3M was forecast.

A fortuitous forecast fumble came our way this morning when the University of Michigan surprised everyone with its latest report on Consumer Sentiment. Today's preliminary report for December showed the Sentiment Index soaring to 81.4 from 76.9 when it was forecast to fall slightly to 76. It's unclear whether the results were influenced by the recent announcement that the Wolverines won't have to play the Buckeyes this year. Be that as it may, another pleasant surprise could be found in the Expectations sub-index with a rise to 74.7 from 70.5. And even with the arrival of winter and more covid-induced restrictions, the Current Conditions component still managed a rise to 91.8 from 87. The good citizens of Michigan are putting on a brave face, and good for them.

The bravery of Treasury investors got tested this week as some skiddish selling pressures pushed the Ten-Year's yield to the threshold of 1%. But, only to the threshold. Yesterday's modest rally has bravely carried on today with the Ten-Year yield falling back to 88 basis points with the Long Bond hovering around 1.60%. The week's early sell-off pushed Thirty-Year yields to over 1.70% and sparked renewed speculation that the FOMC may adjust the composition and magnitude of future bond purchases in order to artificially suppress a steepening yield curve. Possible Fed actions might take the form of another Operation Twist ala Ben Bernanke, or this time around it might be called Yield Curve Control. We might learn more about that when the Committee meets next week and maybe tells us what kind of economic medicine might be coming our way. Until then, the Congressional failure to figure out a fiscal relief package will remain a bitter pill to swallow for many suffering Americans. 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	0.07	(0.01)	0.10	0.18	1.56	2yr	0.17	0.20	0.20	0.21	0.20	2Yr	0.15	0.15	0.13	-
6mo	0.07	(0.02)	0.10	0.19	1.56	3yr	0.23	0.24	0.22	0.24	0.33	3Yr	0.25	0.24	0.20	0.21
1yr	0.08	(0.02)	0.12	0.19	1.54	5yr	0.46	0.42	0.32	0.34	0.58	5Yr	0.53	0.52	0.51	0.48
2yr	0.12	(0.03)	0.18	0.20	1.62	7yr	0.82	0.63	0.57	0.61	0.93	7Yr	0.83	0.82	0.80	0.76
3yr	0.17	(0.05)	0.25	0.23	1.62	10yr	1.13	0.88	0.99	1.06	1.34	10Yr	1.18	1.18	1.17	1.13
5yr	0.35	(0.07)	0.45	0.32	1.64	15yr	1.44	1.12	1.37	1.46	1.86	January TBA MBS				
7yr	0.61	(0.09)	0.72	0.52	1.74	20yr	1.75	1.24	1.65	1.76	2.43	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.88	(0.09)	0.98	0.67	1.79	25yr	2.06	1.30	1.81	1.92	2.48	2.00	0.78	3.7y	1.22	
30yr	1.61	(0.12)	1.74	1.40	2.23	30yr		1.32	1.96	2.09	2.53	2.50	0.93	3.0y		
												3.00	1.14	2.8y	0.89	2.3y
												3.50	1.13	2.6y	0.65	2.0y
												4.00			0.82	2.2y
												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	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	0.08	--	0.10	0.07	--
1 Month LIBOR	0.15	(0.00)	0.13	0.19	1.72
3 Month LIBOR	0.22	(0.01)	0.21	0.31	1.89
6 Month LIBOR	0.25	(0.01)	0.24	0.46	1.88
1 Year LIBOR	0.34	0.00	0.33	0.63	1.94
6 Month CD	0.31	0.02	0.25	0.43	1.94
1 Year CMT	0.10	--	0.12	0.18	1.56
REPO O/N	0.10	(0.02)	0.12	0.12	1.46
REPO 1Wk	0.08	(0.05)	0.13	0.10	1.56
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	0.35	0.33
6mo	0.25	0.36	0.31
1yr	0.30	0.31	0.33
2yr	0.32	0.50	0.37
3yr	0.39	0.59	0.46
4yr	0.49	0.69	0.56
5yr	0.61	0.83	0.69
7yr	0.90	1.15	0.99
10yr	1.26	1.54	1.36
5yr Am	0.45		0.59
10yr Am	0.89		1.05

Fed Fund Futures	
Maturity	Rate
Dec-20	0.087
Jan-21	0.080
Feb-21	0.070
Mar-21	0.070
Apr-21	0.075
May-21	0.075
Jun-21	0.075
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	\$7.228b	<del>\$16.214b</del>	\$15.034b
12/8	NFIB Small Business Optimism	Nov	102.5	101.4	104.0	--
12/8	Nonfarm Productivity	3Q F	4.9%	4.6%	4.9%	--
12/8	Unit Labor Costs	3Q F	-8.9%	-6.6%	-8.9%	--
12/9	MBA Mortgage Applications	12/4	--	-1.2%	-0.6%	--
12/9	Wholesale Inventories MoM	Oct F	0.9%	1.1%	0.9%	--
12/9	Wholesale Trade Sales MoM	Oct	--	1.8%	<del>0.1%</del>	0.4%
12/9	JOLTS Job Openings	Oct	6300	6652	<del>6436</del>	6494
12/10	Initial Jobless Claims	12/5	725k	853k	<del>742k</del>	716k
12/10	Continuing Claims	11/28	5210k	5757k	<del>5520k</del>	5527k
12/10	CPI YoY	Nov	1.1%	1.2%	1.2%	--
12/10	CPI Ex Food and Energy YoY	Nov	1.5%	1.6%	1.6%	--
12/10	CPI Index NSA	Nov	260.09	260.23	260.39	--
12/10	CPI Core Index SA	Nov	269.57	269.89	269.30	--
12/10	Real Avg Hourly Earning YoY	Nov	--	3.2%	3.2%	--
12/10	Real Avg Weekly Earnings YoY	Nov	--	4.7%	4.4%	--
12/10	Bloomberg Consumer Comfort	12/6	--	49.0	49.3	--
12/10	Household Change in Net Worth	3Q	--	\$3817b	<del>\$7607b</del>	\$8294b
12/10	Monthly Budget Statement	Nov	-\$198.5b	-\$145.3b	-\$208.8b	--
12/11	PPI Final Demand YoY	Nov	0.7%	0.8%	0.5%	--
12/11	PPI Ex Food and Energy YoY	Nov	1.5%	1.4%	1.1%	--
12/11	PPI Ex Food, Energy, Trade YoY	Nov	--	0.9%	0.8%	--
12/11	U. of Mich. Sentiment	Dec P	76.0	81.4	76.9	--
12/11	U. of Mich. Current Conditions	Dec P	--	91.8	87.0	--
12/11	U. of Mich. 1 Yr Inflation	Dec P	--	2.3%	2.8%	--
12/15	Empire Manufacturing	Dec	6.9	--	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	0.2%	--	0.2%	--
12/16	Retail Sales Control Group	Nov	0.3%	--	0.1%	--
12/16	Markit US Manufacturing PMI	Dec P	56.0	--	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%	--	0.10%	--
12/17	Building Permits	Nov	1553k	--	<del>1545k</del>	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	--	--	43.0	--
12/18	Current Account Balance	3Q	-\$190.0b	--	-\$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	40.5	52.1	42.4	31.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.0	22.0	20.6	23.9	22.8	18.2
FH/FN 15y	16.6	21.9	23.5	25.0	18.6	20.9
GN 15y	23.9	14.0	16.5	16.1	14.0	13.2
FH/FN 20y	15.9	21.4	22.1	21.7	21.0	18.0
FH/FN 30y	15.0	21.4	36.5	37.6	34.1	30.3
GN 30y	11.6	18.0	27.1	25.6	29.4	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	103.92	(0.25)	105.43	106.87	108.56
Euro	1.21	--	1.18	1.13	1.11
Dollar Index	90.94	0.23	93.04	96.73	97.08
<b>Major Stock Indices</b>					
Dow Jones	29,967	(251)	29,398	25,128	27,911
S&P 500	3,657.5	(41.7)	3,572.7	3,002.1	3,141.6
NASDAQ	12,374.5	(90)	11,786.4	9,492.7	8,654.1
<b>Commodities</b>					
Gold	1,843.1	7.2	1,861.6	1,732.0	1,469.4
Crude Oil	46.75	0.49	41.45	36.34	58.76
Natural Gas	2.60	0.02	3.03	1.81	2.24
Wheat	590.3	18.5	608.5	506.3	534.8
Corn	418.0	1.0	417.3	329.8	357.8

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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