

Baker Market Update: Week in Preview

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Covid vaccinations should begin this week and that's good news for all Americans! But, it'll be awhile before all Americans are vaccinated and still awhile longer before the economic erosion caused by social restrictions, business lockdowns, and cautionary behavior can be reversed. One of the big questions these days, and there are many, is just how bad things might become before they become better? No doubt that will be a discussion topic for the FOMC when policy-makers gather on Tuesday and Wednesday for the year's last meeting. The pleas of Chairman Powell and other Committee members for more governmental relief have so far fallen on deaf Congressional ears and Fed watchers will be looking for possible changes to forward guidance and/or changes in its bond-buying program in response to the lack of fiscal response. We'll all know more on Wednesday afternoon when the Chairman meets the press.

With no economic statistical releases on today's calendar, equity investors are liking the vaccine news while also being cautiously optimistic for some kind of fiscal relief bill making it through Congress before year's end. The Treasury market is greeting the new week with lower prices and higher yields with the Ten-Year's yield rising to around 94 basis points as the Long Bond's yield has moved up to around 1.67%.

On the data front, the New York Fed will get things started off early tomorrow when it is expected to report that its Empire Manufacturing Index, which has been sliding of late, improved this month to 6.9 from 6.3. The Bureau of Labor Statistics will also be telling us that its Import Price Index probably rose 0.3% in November, but year-over-year stands at a minus 0.9% growth rate. That same report is expected to show that the index for Export Prices rose 0.2% last month. Also tomorrow, the Federal Reserve should report that Industrial Production rose 0.3% in November while Capacity Utilization maybe managed a slight gain to 73% from 72.8%. At the end of February, that measure was almost 77% and by the end of April had fallen to less than 65%. There's still a long way to go to get back to where we were and that's only part of the output-gap story.

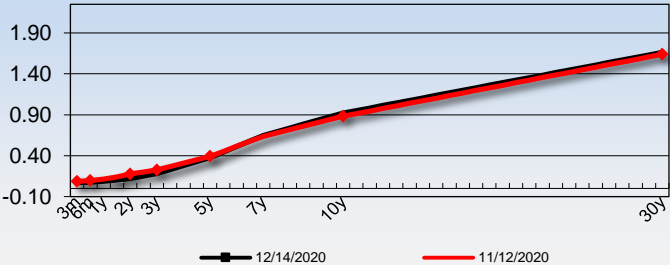
The story of consumers will be known a little better on Wednesday when the Census Bureau issues its Retail Sales report for November. After May's big bounce of over 18% from March's 8.2% plunge and April's near-15% meltdown, the bounces have been getting smaller and smaller. June's growth of 8.6% was still pretty bouncy, but none of the past four months have been over 1.6% and October barely budged at up 0.3%. If forecasters are right, last month's growth rate will have a minus sign. A minus sign in front of 0.3%. What does one do after the bounce is gone? Well, if you bounce without Autos, those sales probably grew 0.1%. The Retail Sales Control Group, without food, autos, gas stations, and building materials, should show a gain 0.2%. Markit U.S., a private reporting entity, is also expected to publish its preliminary December values for both its Manufacturing and Services PMI's. The Manufacturing Index is expected to show a decline to 55.8 from 56.7 while the Services PMI slides to 56 from 58.4. Both are still indicating expansion, but at a slowing pace. Is it possible that the red-hot pace of America's housing market could also be slowing? The National Association of Home Builders is expected to report on Wednesday that its Housing Market Index may have cooled just slightly this month to 88 from 90. The levels reached the prior two months have surprised most observers by setting new record highs, so we'll see if another surprise awaits us.

More information about the state of Housing will come on Thursday when a report on November's Building Permits should show a 0.9% rise after a 0.1% slip the month prior. Housing Starts for November are not expected to show much change from October at an annualized pace of 1.53M. If Thursday's Housing news fails to bring investors any pleasant surprises, maybe the Jobless Claims news will provide some. But, if the surveys suggesting a new, weekly total of 823k are correct, that will be less than the prior week's 853k, but still not very pleasant. Continuing Claims are expected to have remained unpleasantly high at 5.7M in a slight fall from the prior week's 5.75M. And then there's the Philadelphia Fed and its succinctly named Business Outlook Survey Diffusion Index of General Conditions. What that means is, 125 CEO's around the country are asked a lot of questions each month about their businesses, their customers, their employees, and their economies. Thursday's report is expected to show a drop in December's Index value to 20 from 26.3. In October it was 32.3. The Kansas City Fed is also scheduled to report that its Manufacturing Index fell this month to 10 from November's 11.

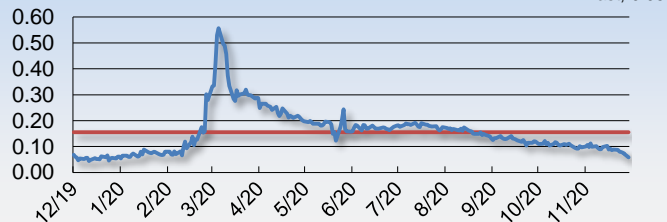
So, where is all this leading us? Who knows? But on Friday, that amorphous entity known as The Conference Board is scheduled to tell us that its Leading Index rose by 0.4%. Last month. Have a great week; be careful out there.



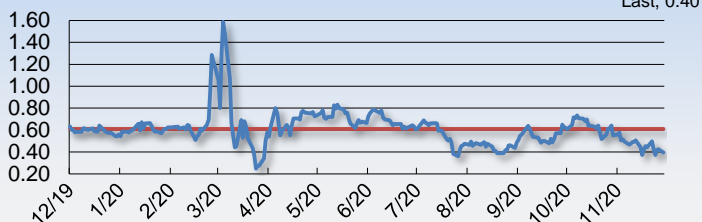
Treasury Yield Curve - Current vs. 1-Month



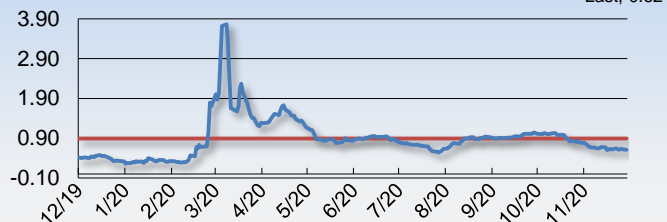
Agency Spreads
5Yr Bullet vs. 5Yr Treasuries



MBS Spreads
FHLMC 15Yr TBA vs. 5Yr Treasuries



Municipal Spreads
10Yr BQ AAA Muni vs. 5Yr Treasuries



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	0.07	(0.00)	0.09	0.16	1.56	2yr	0.17	0.20	0.20	0.21	0.18	2Yr	0.13	0.12	0.10	-
6mo	0.08	(0.01)	0.10	0.18	1.56	3yr	0.24	0.25	0.22	0.24	0.31	3Yr	0.23	0.21	0.10	0.17
1yr	0.09	(0.02)	0.12	0.18	1.53	5yr	0.49	0.44	0.31	0.33	0.56	5Yr	0.52	0.51	0.49	0.46
2yr	0.12	(0.02)	0.18	0.19	1.61	7yr	0.69	0.65	0.56	0.60	0.90	7Yr	0.82	0.82	0.80	0.77
3yr	0.18	(0.02)	0.24	0.23	1.62	10yr	1.18	0.92	0.98	1.04	1.32	10Yr	1.18	1.19	1.18	1.14
5yr	0.38	(0.01)	0.41	0.33	1.65	15yr	1.67	1.17	1.34	1.43	1.84	January TBA MBS				
7yr	0.65	(0.01)	0.65	0.54	1.76	20yr	2.16	1.30	1.62	1.73	2.42	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.92	(0.00)	0.90	0.71	1.82	25yr	2.65	1.35	1.78	1.89	2.47	2.00	0.41	2.8y	1.19	
30yr	1.66	(0.02)	1.65	1.46	2.25	30yr		1.38	1.93	2.06	2.52	2.50	0.54	2.3y		
												3.00	0.69	2.3y	1.21	2.8y
												3.50	0.84	2.4y	1.22	2.6y
												4.00			1.36	2.7y
												4.50			1.55	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	0.08	(0.01)	0.10	0.08	--
1 Month LIBOR	0.16	0.01	0.14	0.18	1.74
3 Month LIBOR	0.22	(0.01)	0.22	0.31	1.89
6 Month LIBOR	0.25	(0.01)	0.25	0.42	1.89
1 Year LIBOR	0.34	(0.00)	0.34	0.60	1.94
6 Month CD	0.30	0.08	0.26	0.27	1.89
1 Year CMT	0.10	(0.01)	0.12	0.19	1.55
REPO O/N	0.10	(0.01)	0.12	0.13	1.55
REPO 1Wk	0.09	(0.04)	0.09	0.11	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	0.30
1yr	0.30	0.31	0.33
2yr	0.32	0.50	0.35
3yr	0.39	0.59	0.43
4yr	0.49	0.69	0.53
5yr	0.61	0.83	0.66
7yr	0.90	1.15	0.96
10yr	1.26	1.54	1.32
5yr Am	0.45		0.56
10yr Am	0.89		1.01

Fed Fund Futures

Maturity	Rate
Dec-20	0.090
Jan-21	0.085
Feb-21	0.075
Mar-21	0.075
Apr-21	0.070
May-21	0.070
Jun-21	0.070
Jul-21	0.075
Aug-21	0.075
Sep-21	0.080
Oct-21	0.085

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/15	Empire Manufacturing	Dec	6.6	--	6.3	--
12/15	Import Price Index YoY	Nov	-0.9%	--	-1.0%	--
12/15	Export Price Index YoY	Nov	--	--	-1.6%	--
12/15	Industrial Production MoM	Nov	0.3%	--	1.1%	--
12/15	Capacity Utilization	Nov	73.0%	--	72.8%	--
12/15	Manufacturing (SIC) Production	Nov	0.4%	--	1.0%	--
12/15	Net Long-term TIC Flows	Oct	--	--	\$108.9b	--
12/15	Total Net TIC Flows	Oct	--	--	-\$79.9b	--
12/16	MBA Mortgage Applications	12/11	--	--	-1.2%	--
12/16	Retail Sales Ex Auto MoM	Nov	0.1%	--	0.2%	--
12/16	Retail Sales Ex Auto and Gas	Nov	0.1%	--	0.2%	--
12/16	Retail Sales Control Group	Nov	0.2%	--	0.1%	--
12/16	Markit US Manufacturing PMI	Dec P	55.8	--	56.7	--
12/16	Markit US Services PMI	Dec P	55.6	--	58.4	--
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	Philadelphia Fed Business Outlook	Dec	20.0	--	26.3	--
12/17	Housing Starts	Nov	1535k	--	1530k	--
12/17	Initial Jobless Claims	12/12	818k	--	853k	--
12/17	Continuing Claims	12/5	5700k	--	5757k	--
12/17	Bloomberg Economic Expectations	Dec	--	--	43.0	--
12/17	Bloomberg Consumer Comfort	12/13	--	--	49.0	--
12/18	Current Account Balance	3Q	-\$187.0b	--	-\$170.5b	--
12/18	Leading Index	Nov	0.5%	--	0.7%	--
12/21	Chicago Fed Nat Activity Index	Nov	--	--	83.0%	--
12/22	GDP Annualized QoQ	3Q T	33.1%	--	33.1%	--
12/22	Personal Consumption	3Q T	--	--	40.6%	--
12/22	GDP Price Index	3Q T	--	--	3.6%	--
12/22	Core PCE QoQ	3Q T	--	--	3.5%	--
12/22	Conf. Board Expectations	Dec	--	--	89.5	--
12/22	Conf. Board Consumer Confidence	Dec	97.5	--	96.1	--
12/22	Conf. Board Present Situation	Dec	--	--	105.9	--
12/22	Existing Home Sales	Nov	6.64m	--	6.85m	--
12/23	Personal Income	Nov	-0.2%	--	-0.7%	--
12/23	Real Personal Spending	Nov	--	--	0.5%	--
12/23	PCE Deflator YoY	Nov	--	--	1.2%	--
12/23	PCE Core Deflator YoY	Nov	1.5%	--	1.4%	--
12/23	U. of Mich. Sentiment	Dec F	--	--	81.4	--
12/23	U. of Mich. Current Conditions	Dec F	--	--	91.8	--
12/23	U. of Mich. 1 Yr Inflation	Dec F	--	--	2.3%	--
12/23	New Home Sales	Nov	990k	--	999k	--
12/24	Durables Ex Transportation	Nov P	0.7%	--	1.3%	--
12/24	Cap Goods Ship Nondef Ex Air	Nov P	--	--	2.4%	--

MBS Prepayments ⁴						
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	19.6	20.9	21.5	24.5	26.5	19.9
FH/FN 15y	20.6	25.3	27.0	28.0	21.9	20.3
GN 15y	14.6	15.8	16.6	15.3	14.0	13.2
FH/FN 20y	25.9	26.6	21.3	19.9	20.0	17.9
FH/FN 30y	14.7	22.6	30.2	31.4	31.3	27.5
GN 30y	11.0	14.2	27.3	32.2	34.7	15.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	103.60	(0.45)	104.58	107.33	109.55
Euro	1.22	0.01	1.19	1.13	1.11
Dollar Index	90.47	(0.33)	92.76	97.32	97.17
Major Stock Indices					
Dow Jones	30,046	(172)	29,480	25,606	28,135
S&P 500	3,663.5	(35.7)	3,585.2	3,041.3	3,168.8
NASDAQ	12,377.9	(86)	11,829.3	9,588.8	8,734.9
Commodities					
Gold	1,822.7	(39.1)	1,886.2	1,729.3	1,475.6
Crude Oil	47.17	1.41	40.13	36.26	60.07
Natural Gas	2.69	0.28	3.00	1.73	2.30
Wheat	615.5	44.3	593.5	502.0	539.3
Corn	429.8	10.3	410.5	330.0	366.3

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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