

Baker Market Update: Week in Review

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Yes, a vaccine is here and more are on the way. Better days lie ahead and even Jerome Powell can see the light at the end of the tunnel. Still, 10 million lost jobs are still lost and 54 million Americans still face food insecurity. But surely they were comforted by Tuesday's announcement that the Federal Reserve has formally become a member of an organization that calls itself the Network of Central Banks and Supervisors for Greening the Financial System. It's unclear just when addressing climate change became part of the Fed's charter, but with M1 money supply up more than 50% year-over-year, one might reasonably conclude that the Fed has already done its fair share of "greening".

The addition of all those new greenbacks seems to have improved the economic outlook of the nation's monetary policy-makers and it showed up in this week's fresh set of FOMC projections. There weren't any significant revelations coming from the Committee nor from Mr. Powell at this week's Fed meeting, but the FOMC's median estimate of 2020's GDP improved to a 2.4% decline from September's projected 3.7% drop while 2021's growth estimate improved to 4.2% from September's guess of 4%. We already know that we'll wind up this year with a 6.7% Unemployment Rate, but back in September, the Committee thought that 7.6% was as good as it was going to get. Maybe the grass is greener than they thought.

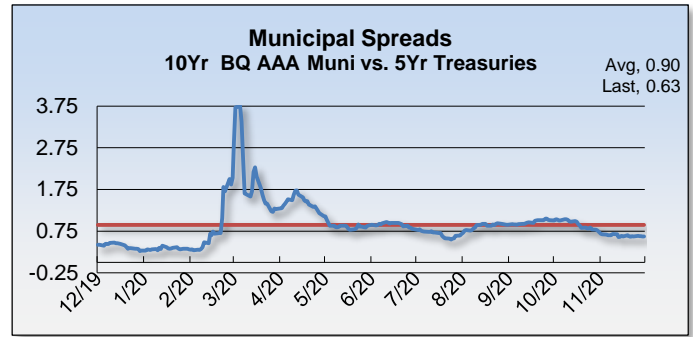
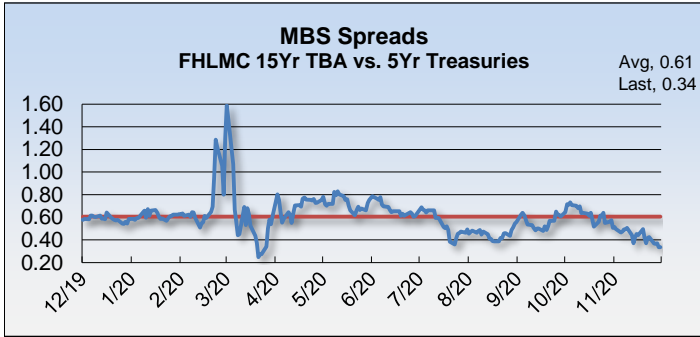
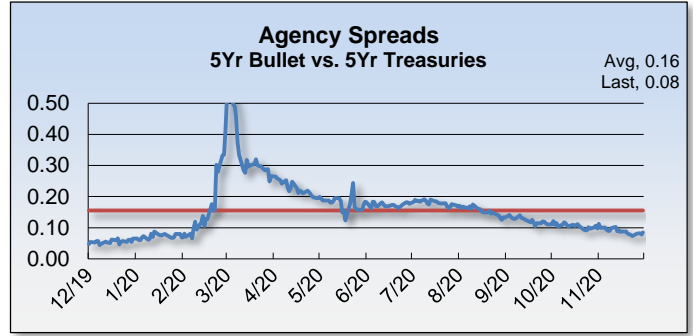
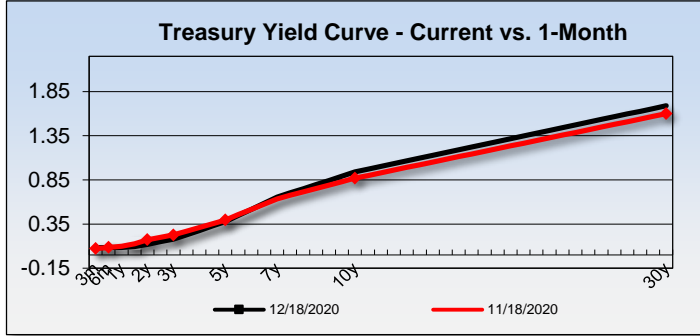
It's possible, though, that the green grass the Committee thinks it sees is really just a bunch of weeds. They're green, too, and might be why things are still pretty rocky and might get rockier. We learned on Tuesday that the New York Fed's Empire Manufacturing Index hit some rocky shoals this month with an unexpected plunge to 4.9 when it was "supposed" to remain at 6.3. Slightly better news came from the Census Bureau with a report for November showing that Industrial Production rose by 0.4% and that was slightly higher than forecast. Unfortunately, October's 1.1% growth was revised to just 0.9%. Capacity Utilization, a measure of the economy's manufacturing, mining, and utility output relative to its potential, grew to 73.3% versus analysts' estimates of 73%. Prior to the pandemic-induced economic lockdown, that measure was just shy of 77%. This measure is a big component of the nation's overall Output Gap and is one reason why many believe that, despite the massive fiscal and monetary aid that has been injected into the economy, inflationary pressures will remain muted until such time as that gap significantly narrows. We learned from the Bureau of Labor Statistics that, in November, its Import Price Index was down 1% year-over-year while the Index for Export Prices has fallen 1.1%. Neither one of those measurements support much of a case for rising inflationary pressures in the near term.

On Wednesday, we learned that the rocky road of consumerism also has some potholes with an announcement that Retail Sales fell by a greater-than-expected 1.1% last month and October's modest gain of 0.3% was actually a decline of 0.1%. Forecasters were only expecting last month's Sales to fall by 0.3%. Without Autos, the decline was still 0.9%. The Retail Sales Control Group, without food, autos, gas stations, and building materials, fell by 0.5% against an estimated 0.2% rise. For the Housing Market, the National Association of Home Builders reported that its Housing Market Index hit a bump in the road this month with a fall to 86 from 90 versus an expected fall to 88. Yes, a decline, but that measure had set record highs in both the preceding two months. Better news came our way with a Census Bureau report telling us that Housing Starts grew by a greater-than-expected 1.2% last month. That was a slowdown from October's upwardly revised 6.3% rise, but beat estimates of a 0.3% November gain. Building Permits also outperformed with a 6.2% November boost against an estimated 1% rise.

On Thursday, the unexpected rise in the total of weekly, Initial Jobless Claims was, for those applicants at least, akin to finding a rock in your Christmas stocking. Last week's total of 885k was greater than the prior week's upwardly revised 862k and far greater than the 818k that was expected. After falling to 716k for the week ending November 27th, this measure has disconcertingly resumed an upward trend. Continuing Claims fared somewhat better with a fall to 5.5M from 5.78M and that beat estimates of a decline to only 5.7M. Still too many.

The case for a turnaround in the Claims totals was not helped with the news yesterday that the Philadelphia Fed's Business Outlook Survey Diffusion Index of General Conditions cratered to 11.1 this month when it was only expected to crater to 20. That value was 26.3 in November and 32.3 in October. As gloomy as that report was, a brighter spot could be found in the Kansas City Fed's Manufacturing Index. That measure somehow managed a December rise to 14 from the prior month's 11 and ran counter to surveys expecting a dip to 9. More good news came out just this morning when the Conference Board announced that its Index of Leading Economic Indicators rose last month by 0.6% as the prior month rise of 0.7% was revised to 0.8%. One can't help but wonder; does an historic revision to a leading indicator change the future? We'll probably never know.

We'll also probably never know just how Quantitative Easing and a Zero-Interest Rate Policy relate to carbon footprints and greenhouse gases, but at some point, Jerome will probably tell us. In the meantime, the yield curve is telling us that it's once again becoming modestly steeper, but the Ten-Year still has been unable to breach 1%. What if it does? Will the Fed revisit Operation Twist or otherwise impose some form of Yield Curve Control? According to Mr. Powell's post-meeting press conference, such actions are not currently being contemplated. But that doesn't mean they won't be contemplated later. But, probably not until Jerome gets this climate change thing under control. No one wants to throw rocks at the central bank, but this is not your father's Fed. 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	0.08	0.01	0.07	0.15	1.56	2yr	0.16	0.20	0.20	0.21	0.19	2Yr	0.12	0.12	0.10	-
6mo	0.09	0.01	0.09	0.17	1.57	3yr	0.23	0.25	0.22	0.24	0.32	3Yr	0.22	0.21	0.10	0.16
1yr	0.08	(0.00)	0.11	0.18	1.52	5yr	0.46	0.44	0.31	0.33	0.58	5Yr	0.50	0.49	0.47	0.44
2yr	0.12	0.00	0.18	0.20	1.63	7yr	0.67	0.66	0.57	0.61	0.93	7Yr	0.80	0.79	0.78	0.74
3yr	0.18	0.00	0.23	0.23	1.67	10yr	1.18	0.93	0.99	1.06	1.34	10Yr	1.15	1.17	1.15	1.11
5yr	0.38	0.01	0.40	0.33	1.73	15yr	1.69	1.19	1.36	1.45	1.88	January TBA MBS				
7yr	0.65	0.03	0.64	0.54	1.85	20yr	2.19	1.32	1.64	1.74	2.46	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.94	0.04	0.87	0.71	1.92	25yr	2.70	1.38	1.79	1.91	2.52	2.00	0.75	3.6y	1.20	
30yr	1.69	0.06	1.60	1.48	2.35	30yr		1.41	1.95	2.07	2.57	2.50	0.93	2.9y		
												3.00	1.13	2.8y	0.84	2.4y
												3.50	1.08	2.6y	0.50	2.0y
												4.00			0.71	2.2y
												4.50			0.84	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	0.09	0.01	0.09	0.09	--
1 Month LIBOR	0.16	0.01	0.14	0.19	1.74
3 Month LIBOR	0.24	0.02	0.22	0.31	1.90
6 Month LIBOR	0.26	0.00	0.25	0.43	1.89
1 Year LIBOR	0.33	(0.00)	0.34	0.59	1.96
6 Month CD	0.22	(0.09)	0.28	0.27	1.91
1 Year CMT	0.09	(0.01)	0.12	0.19	1.53
REPO O/N	0.11	0.00	0.11	0.09	1.55
REPO 1Wk	0.09	0.01	0.13	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	--	0.34
6mo	0.26	--	0.31
1yr	0.30	--	0.32
2yr	0.32	--	0.35
3yr	0.39	--	0.42
4yr	0.49	--	0.53
5yr	0.60	--	0.64
7yr	0.91	--	0.94
10yr	1.29	--	1.33
5yr Am	0.44	--	0.55
10yr Am	0.88	--	0.99

Fed Fund Futures	
Maturity	Rate
Dec-20	0.093
Jan-21	0.090
Feb-21	0.085
Mar-21	0.080
Apr-21	0.075
May-21	0.070
Jun-21	0.070
Jul-21	0.070
Aug-21	0.070
Sep-21	0.075
Oct-21	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/15	Empire Manufacturing	Dec	6.3	4.9	6.3	--
12/15	Import Price Index YoY	Nov	-0.9%	-1.0%	-1.0%	--
12/15	Export Price Index YoY	Nov	--	-1.1%	-1.6%	--
12/15	Industrial Production MoM	Nov	0.3%	0.4%	4.1%	0.9%
12/15	Capacity Utilization	Nov	73.0%	73.3%	72.8%	73.0%
12/15	Manufacturing (SIC) Production	Nov	0.4%	0.8%	4.0%	1.1%
12/15	Net Long-term TIC Flows	Oct	--	\$51.9b	\$108.9b	--
12/15	Total Net TIC Flows	Oct	--	-\$10.4b	-\$79.9b	-\$80.5b
12/16	MBA Mortgage Applications	12/11	--	1.1%	-1.2%	--
12/16	Retail Sales Ex Auto and Gas	Nov	0.1%	-0.8%	0.2%	-0.1%
12/16	Retail Sales Control Group	Nov	0.2%	-0.5%	0.1%	-0.1%
12/16	Markit US Manufacturing PMI	Dec P	55.8	56.5	56.7	--
12/16	Markit US Services PMI	Dec P	55.9	55.3	58.4	--
12/16	Markit US Composite PMI	Dec P	--	55.7	58.6	--
12/16	Business Inventories	Oct	0.6%	0.7%	0.7%	0.8%
12/16	NAHB Housing Market Index	Dec	88	86	90	--
12/16	FOMC Rate Decision (Upper Bound)	12/16	0.25%	0.25%	0.25%	--
12/16	FOMC Rate Decision (Lower Bound)	12/16	0.00%	0.00%	0.00%	--
12/16	Interest Rate on Excess Reserves	12/17	0.10%	0.10%	0.10%	--
12/17	Initial Jobless Claims	12/12	818k	885k	853k	862k
12/17	Continuing Claims	12/5	5700k	5508k	5757k	5781k
12/17	Housing Starts	Nov	1535k	1547k	1530k	1528k
12/17	Building Permits	Nov	1560k	1639k	1545k	1544k
12/17	Philadelphia Fed Business Outlook	Dec	20.0	11.1	26.3	--
12/17	Bloomberg Economic Expectations	Dec	--	38.5	43.0	--
12/17	Bloomberg Consumer Comfort	12/13	--	48.4	49.0	--
12/18	Current Account Balance	3Q	-\$187.0b	-\$178.5b	-\$170.5b	-\$161.4b
12/18	Leading Index	Nov	0.5%	0.6%	0.7%	0.8%
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%	--	40.6%	--
12/22	GDP Price Index	3Q T	3.6%	--	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	97.0	--	96.1	--
12/22	Conf. Board Present Situation	Dec	--	--	105.9	--
12/22	Existing Home Sales	Nov	6.70m	--	6.85m	--
12/23	Durables Ex Transportation	Nov P	0.5%	--	1.3%	--
12/23	Cap Goods Ship Nondef Ex Air	Nov P	--	--	2.4%	--
12/23	Personal Income	Nov	-0.2%	--	-0.7%	--
12/23	Personal Spending	Nov	-0.2%	--	0.5%	--
12/23	PCE Deflator YoY	Nov	1.2%	--	1.2%	--
12/23	PCE Core Deflator YoY	Nov	1.4%	--	1.4%	--
12/23	U. of Mich. Sentiment	Dec F	80.5	--	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	--

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	19.3	22.3	21.0	24.0	22.8	18.2
FH/FN 15y	17.1	22.1	23.4	25.3	18.6	21.0
GN 15y	24.6	14.1	16.5	16.1	14.0	13.2
FH/FN 20y	17.3	21.7	22.3	21.8	21.0	18.0
FH/FN 30y	15.0	21.6	36.2	37.9	34.2	30.4
GN 30y	11.8	18.4	27.2	26.1	29.5	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	103.43	(0.61)	103.82	106.97	109.55
Euro	1.22	0.01	1.19	1.12	1.11
Dollar Index	90.08	(0.90)	92.32	97.42	97.40
Major Stock Indices					
Dow Jones	30,153	107	29,438	26,080	28,239
S&P 500	3,708.0	44.6	3,567.8	3,115.3	3,191.1
NASDAQ	12,756.1	378	11,801.6	9,943.1	8,827.7
Commodities					
Gold	1,888.0	48.2	1,873.9	1,724.8	1,472.6
Crude Oil	48.87	2.30	41.82	38.84	60.93
Natural Gas	2.70	0.11	2.71	1.64	2.29
Wheat	609.5	1.3	597.8	483.5	548.3
Corn	435.0	10.8	425.8	331.0	387.0

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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