

Baker Market Update: Week in Review

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Now that we've got the year's first week almost behind us, one thing is pretty clear. Somebody didn't eat their black-eyed peas. Judging by today's Employment Report, the offenders may work at the Bureau of Labor Statistics. This morning's report revealed a decline of 140k in last month's Non-Farm Payroll count while the Unemployment Rate remained unchanged at 6.7%. Forecasters were expecting job growth of 50k and also an uptick in the Unemployment Rate to 6.8%. November's payroll growth of 245k was revised to 336k. Total revisions for the last two months came to plus 135k. The all-important Labor Force Participation Rate remained unchanged at 61.5%, but one year ago it was 63.3%.

Perhaps most startling in today's flurry of statistics was the 0.8% growth in Average Hourly Earnings. Analysts were only expecting growth of 0.2%. Last month's outsized gain in that measurement helped push the year-over-year growth rate to 5.1% versus an estimate of 4.5%. Rest assured, that would not have happened without Uncle Sam. But, governmental largesse could still not prevent the loss of 498k Leisure and Hospitality jobs amid reinstated lockdowns and restrictions. Still, Manufacturing managed to gain 38k new jobs with Construction contributing a rise of 51k. Positions in Retail Trade grew by 121k while Professional and Business Services created 161k new jobs. Last month's payroll decline, the first since April, will surely inspire even louder cries for more covid-inspired Federal assistance.

The week began benignly enough with the unexpected good news that Markit's PMI for Manufacturing beat estimates for December by rising to 57.1 from 56.5 instead of falling to 56.3 as forecasters expected. This positive tidbit was made all the more surprising by recent declines seen in similar diffusion indices produced by the Federal Reserve Banks of Philadelphia, Chicago, and New York. Monday also brought us the news that Construction Spending's boost of 0.9% in November just barely missed estimates of 1% growth.

More good news for the Manufacturing sector came out on Tuesday when the Institute of Supply Management reported that its Manufacturing PMI, not unlike Markit's measure, rose last month instead of falling as analysts had predicted. November's value of 57.5 became 60.7 in December instead of falling to 56.8 like it was supposed to. Maybe it was all these analysts that so recklessly eschewed New Year's Day's good-luck legumes. One very eye-catching detail of the ISM's report was the Prices Paid component. It leaped to 77.6 from 65.4 versus the forecast of 66. Some see this as a sign that inflation may be headed our way sooner than expected. Others see this as a sign that Bloomberg needs better analysts. Analysts also predicted that Total Vehicle Sales in December moved up to a 15.8M annualized pace from the prior month's 15.55M, but Ward's Auto Group's report blew the doors off of that forecast with a tally of 16.27M. Pandemic pick-up trucks are flying off the shelves.

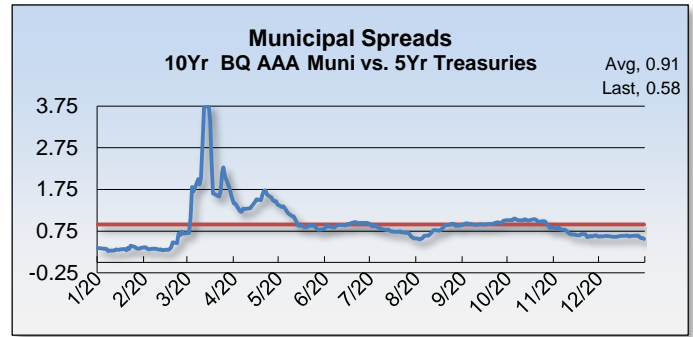
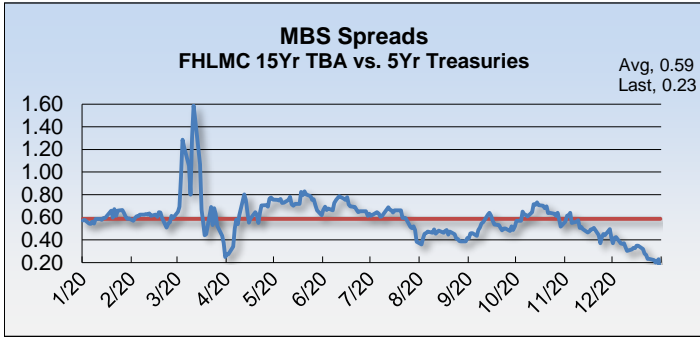
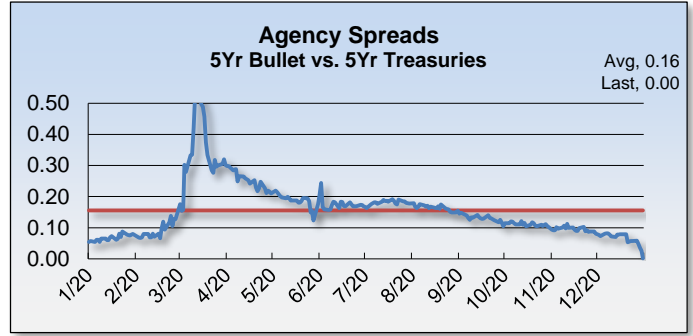
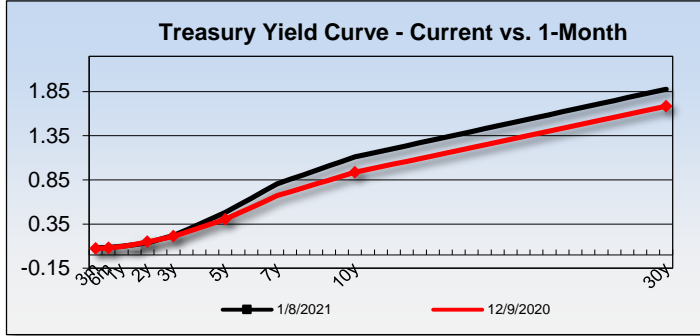
There are several reasons why Wednesday will be long-remembered, but the 1.7% rise in weekly Mortgage Applications reported by the Mortgage Bankers Association will not be among them. Still, good news after the prior week's drop of 5.8%. Wednesday also brought a hint of the disappointing jobs data published this morning when ADP released its own, private Employment Change Report. It revealed a job loss count of 123k against a forecast of a 75k gain. That was also this measurement's first decline since April. Markit U.S. also reported that its Purchasing Managers Index for the Services sector fell to 54.8 from 55.3 when only a slight slip to 55.2 was expected. That decline actually seems pretty mild after seeing what happened to Leisure and Hospitality last month. Better news came from the Census Bureau with a report that Factory Orders grew by a greater-than-expected 1% in November with Durable Goods Orders also beating estimates with a 1% rise. That may help explain some of this week's better-than-expected manufacturing related news.

Wednesday was also the day that last month's FOMC minutes hit the fan, but that was largely overshadowed by something else hitting the fan on Capitol Hill. The meeting's minutes were not particularly noteworthy, more of the same, but Chicago Fed President Charles Evans managed to raise a few eyebrows with some comments made to the Allied Social Science Association. In his prepared remarks, Mr. Evans said, "Economic agents should be prepared for a period of very low interest rates and an expansion of our balance sheet as we work to achieve both our dual mandate objectives." By the way, everyone is an economic agent. Even more telling was Chuck's statement that "It likely will take years to get average inflation up to 2%, which means monetary policy will be accommodative for a long time. This translates into low-for-long policy rates, and indicates that the Fed likely will be continuing our current asset purchase program for a while as well." President Evans is decidedly in the camp of the Doves and he'll get to vote this year. His colleague Loretta Mester, President of the Cleveland Fed and perhaps the Committee's most hawkish member, has to move to the kids' table in 2021.

Thursday brought the weekly count of Jobless Claims and, for the week ending January 2nd, Initial Claims totaled 787k and that was slightly less than the 800k that was expected. These numbers are still disturbingly high, but at least Continuing Claims for the week ending December 26th fell to 5.07M from 5.2M in a greater decline than what was expected. More disquieting news came from Challenger, Gray, and Christmas with its report that, year-over-year, Job Cuts rose 134.5% last month. November's twelve-month pace was 45.4%. Also out yesterday was the news from the Census Bureau that the deficit in the nation's Trade Balance widened in November to minus \$68.1B from minus \$63.1B. The ISM also chimed in yesterday with its December PMI for Services rising unexpectedly to 57.2 from 55.9 when a dip to 54.5 was expected. In light of today's jobs report, one wonders what exactly was being measured.

Market response to today's Labor report has mostly been measured with only slight changes in Treasury yields. The big changes happened earlier in the week and were driven more by politics than economics. With a Democratic sweep of Georgia's Senate seats, the Dems now have the numbers to control both Houses of Congress and with Joe Biden in the White House, investors' expectations of more massive fiscal spending have boosted equity markets to record highs. That's all that really matters, right? Treasury bond prices got a little knee-jerky this week and we've seen the yield on the Ten-Year break above 1% for the first time since March of last year. This morning's drift has taken that yield to 1.10%. With not much move in the short-end, the sell-off in longer-dated issues has significantly steepened the yield curve. That steepening is something that bankers who don't work at the Fed like to see. They actually have to make money and a steeper yield curve helps that effort. How steep will that become before the specter of Yield Curve Control raises its head once again? And speaking once again of the Federal Reserve, it will close out the week's data this afternoon when it is expected to report that Consumer Credit grew by \$9B in November. October's rise of \$7.2B was a big downside miss and we'll see if that reverses itself in today's announcement.

It's too late to reverse the missing mojo for those who chose to forsake their black-eyed peas; we just get the one chance, but this is America and we will get our mojo back! Enjoy the 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	0.14	1.53	2yr	0.17	0.22	0.21	0.22	0.21	2Yr	0.24	0.22	0.20	-
6mo	0.09	0.00	0.09	0.15	1.54	3yr	0.27	0.30	0.22	0.24	0.36	3Yr	0.31	0.30	0.20	0.24
1yr	0.10	(0.01)	0.10	0.15	1.53	5yr	0.53	0.56	0.34	0.36	0.67	5Yr	0.60	0.59	0.56	0.53
2yr	0.14	0.01	0.15	0.16	1.58	7yr	0.78	0.82	0.63	0.67	1.06	7Yr	0.93	0.92	0.89	0.85
3yr	0.22	0.05	0.20	0.19	1.61	10yr	1.29	1.12	1.05	1.12	1.48	10Yr	1.28	1.28	1.27	1.22
5yr	0.48	0.12	0.39	0.30	1.66	15yr	1.79	1.40	1.46	1.55	2.03	February TBA MBS				
7yr	0.81	0.16	0.66	0.50	1.78	20yr	2.29	1.53	1.74	1.85	2.64	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.11	0.19	0.92	0.67	1.87	25yr	2.79	1.59	1.87	1.99	2.69	2.00	0.74	3.7y	1.29	
30yr	1.88	0.23	1.66	1.40	2.36	30yr		1.62	2.00	2.13	2.74	2.50	0.80	2.9y		
												3.00	1.07	2.8y	0.85	2.5y
												3.50	0.95	2.6y	0.39	2.0y
												4.00			0.63	2.2y
												4.50			0.71	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	0.10	0.03	0.08	0.10	--
1 Month LIBOR	0.13	(0.01)	0.15	0.18	1.70
3 Month LIBOR	0.22	(0.01)	0.23	0.27	1.88
6 Month LIBOR	0.25	(0.01)	0.25	0.36	1.88
1 Year LIBOR	0.33	(0.01)	0.34	0.49	1.95
6 Month CD	0.18	(0.06)	0.23	0.27	1.84
1 Year CMT	0.11	0.01	0.10	0.15	1.53
REPO O/N	0.12	0.02	0.09	0.13	1.58
REPO 1Wk	0.09	(0.06)	0.08	0.08	1.55
CoF Federal	0.958	--	1.003	1.224	1.998
11th D. CoF (Nov)	0.466	--	0.503	0.755	1.035

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.25	0.37	0.33
6mo	0.26	0.36	0.31
1yr	0.31	0.32	0.33
2yr	0.34	0.51	0.36
3yr	0.42	0.61	0.45
4yr	0.54	0.74	0.57
5yr	0.69	0.91	0.72
7yr	1.02	1.27	1.05
10yr	1.42	1.69	1.44
5yr Am	0.49		0.57
10yr Am	0.99		1.06

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

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/4	Markit US Manufacturing PMI	Dec F	56.3	57.1	56.5	--
1/5	ISM Manufacturing	Dec	56.8	60.7	57.5	--
1/5	ISM New Orders	Dec	--	67.9	65.1	--
1/5	ISM Prices Paid	Dec	66.0	77.6	65.4	--
1/5	ISM Employment	Dec	--	51.5	48.4	--
1/6	MBA Mortgage Applications	1/1	--	1.7%	-5.8%	--
1/6	ADP Employment Change	Dec	75k	-123k	307k	304k
1/6	Markit US Composite PMI	Dec F	--	55.3	55.7	--
1/6	Factory Orders Ex Trans	Nov	--	0.8%	4.0%	1.3%
1/6	Durables Ex Transportation	Nov F	0.4%	0.4%	0.4%	--
1/6	Cap Goods Ship Nondef Ex Air	Nov F	--	0.5%	0.4%	--
1/7	Challenger Job Cuts YoY	Dec	--	134.5%	45.4%	--
1/7	Initial Jobless Claims	1/2	800k	787k	787k	790k
1/7	Continuing Claims	12/26	5200k	5072k	5249k	5198k
1/7	Trade Balance	Nov	-\$67.3b	-\$68.1b	-\$63.1b	--
1/7	Bloomberg Consumer Comfort	1/3	--	44.4	44.6	--
1/7	ISM Services Index	Dec	54.5	57.2	55.9	--
1/8	Average Hourly Earnings YoY	Dec	4.5%	5.1%	4.4%	--
1/8	Change in Nonfarm Payrolls	Dec	50k	-140k	245k	336k
1/8	Two-Month Payroll Net Revision	Dec	--	135k	--	--
1/8	Change in Private Payrolls	Dec	25k	-95k	344k	417k
1/8	Change in Manufact. Payrolls	Dec	15k	38k	27k	35k
1/8	Unemployment Rate	Dec	6.8%	6.7%	6.7%	--
1/8	Average Weekly Hours All Employees	Dec	34.8	34.7	34.8	--
1/8	Labor Force Participation Rate	Dec	61.5%	61.5%	61.5%	--
1/8	Underemployment Rate	Dec	--	11.7%	12.0%	--
1/8	Consumer Credit	Nov	\$9.000b	--	\$7.228b	--
1/12	NFIB Small Business Optimism	Dec	100.5	--	101.4	--
1/12	JOLTS Job Openings	Nov	--	--	6652	--
1/13	CPI YoY	Dec	1.3%	--	1.2%	--
1/13	CPI Ex Food and Energy YoY	Dec	1.7%	--	1.6%	--
1/13	CPI Index NSA	Dec	260.40	--	260.23	--
1/13	CPI Core Index SA	Dec	270.27	--	269.89	--
1/13	Real Avg Hourly Earning YoY	Dec	--	--	3.2%	--
1/13	Real Avg Weekly Earnings YoY	Dec	--	--	4.7%	--
1/13	Monthly Budget Statement	Dec	--	--	-\$145.3b	--
1/14	Import Price Index YoY	Dec	-0.8%	--	-1.0%	--
1/14	Export Price Index YoY	Dec	--	--	-1.1%	--
1/15	PPI Final Demand YoY	Dec	0.7%	--	0.8%	--
1/15	PPI Ex Food, Energy, Trade YoY	Dec	--	--	0.9%	--
1/15	PPI Ex Food and Energy YoY	Dec	1.3%	--	1.4%	--
1/15	Empire Manufacturing	Jan	6.0	--	4.9	--
1/15	Retail Sales Ex Auto and Gas	Dec	-0.6%	--	-0.8%	--
1/15	Retail Sales Control Group	Dec	0.2%	--	-0.5%	--
1/15	Capacity Utilization	Dec	73.5%	--	73.3%	--
1/15	Manufacturing (SIC) Production	Dec	0.4%	--	0.8%	--
1/15	Business Inventories	Nov	0.5%	--	0.7%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.4	24.8	27.3	29.5	30.4	16.0
FH/FN 15y	16.9	35.0	43.5	47.9	22.3	22.1
GN 15y	25.1	20.4	19.8	20.2	17.8	19.0
FH/FN 20y	53.5	34.1	35.1	33.7	32.2	25.4
FH/FN 30y	8.2	47.0	58.5	58.7	59.5	53.3
GN 30y	13.4	20.3	42.0	51.6	41.9	31.5

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	18.5	21.9	20.9	24.0	22.8	18.4
FH/FN 15y	17.1	22.1	23.5	25.2	18.6	21.0
GN 15y	25.6	14.1	16.5	16.1	14.0	13.2
FH/FN 20y	17.2	21.8	22.4	21.7	21.0	18.0
FH/FN 30y	14.9	21.4	35.7	38.1	34.0	30.5
GN 30y	11.6	18.4	27.0	26.1	30.0	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	103.87	0.67	104.16	107.26	109.12
Euro	1.22	0.00	1.21	1.13	1.11
Dollar Index	90.00	0.06	90.97	96.43	97.30
Major Stock Indices					
Dow Jones	30,990	384	30,174	26,067	28,745
S&P 500	3,819.8	63.8	3,702.3	3,169.9	3,253.1
NASDAQ	13,166.2	278	12,582.8	10,492.5	9,129.2
Commodities					
Gold	1,864.5	(30.6)	1,870.8	1,820.6	1,560.2
Crude Oil	51.74	3.22	45.60	40.90	59.61
Natural Gas	2.70	0.16	2.40	1.82	2.14
Wheat	640.5	--	563.8	517.5	552.8
Corn	496.5	12.5	417.0	348.3	384.3

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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