

## Baker Market Update: Week in Preview

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Most Americans probably wouldn't mind too much if this week turned out to be a boring one. Reading this newsletter should be a good start. We'll have to wait and see just how boring the data turn out to be, but at least there's a lot of it. The thing is, whether there's a lot or a little, and whether it's good or bad, the fundamental measurements of macro-economic performance are not what moves markets these days. At least not like they used to.

But, if boring is what we want, about the only thing going on today is the Treasury's regular, Monday bill auctions along with the sale of \$58B Three-Year notes. What's more boring than Three-Year Treasuries? Two-Year Treasuries? Tomorrow, the National Federation of Independent Businesses gets things started early with the December report for its Small Business Optimism Index. It's expected to have slipped to 100.3 from 101.4. Unfortunately, making a prediction of falling optimism among small business owners is not really going out on much of a limb. The Bureau of Labor Statistics will also report tomorrow through its Job Openings and Labor Turnover Survey that the number of new Job Openings fell to 6.5M in November from 6.65M the month before. If we needed any reminders of the weakening market for labor, this is another one. And if anyone wants to buy any Ten-Year Treasuries, there will be \$38B up for sale tomorrow.

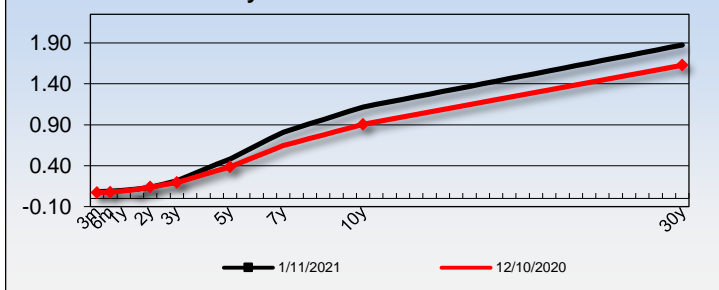
Inflation, or the lack of it, is often a topic of boring conversation these days and we'll have a chance for more of it on Wednesday when the BLS publishes its Consumer Price Index. We're liable to learn that headline CPI rose 0.4% in December with the year-over-year rate probably moving up one-tenth to 1.3%. Without food and energy, core CPI likely rose 0.1% last month with the year-over-year pace staying unchanged at 1.6%. Also on Wednesday, the Treasury will be selling \$24B Thirty-Year Bonds. It needs the money.

Thursday will bring the dreaded weekly Jobless Claims numbers and for the week ending January 9th, analysts are expecting a total of 785k and that's not much different than the prior week's 787k. Estimates for Continuing Claims for the week ending January 2nd are indicating a decline to 5M from 5.07M. Those Continuing Claims have been steadily declining, but we can't conclude that it's all because lots of people have gone back to work. We'll also hear from the Census Bureau Thursday morning and it's expected to tell us that the Import Price Index rose by 0.7% in December. That seems like a lot, especially since it only rose 0.1% the month before. Export Prices are expected to have jumped 0.6% last month, the same jump they had in November. Those monthly numbers might seem a little high, but year-over-year, the Import Price Index is probably still deflationary at minus 0.8%. There's no survey estimate for December's year-over-year Export Price Index, but it was minus 1.1% in November.

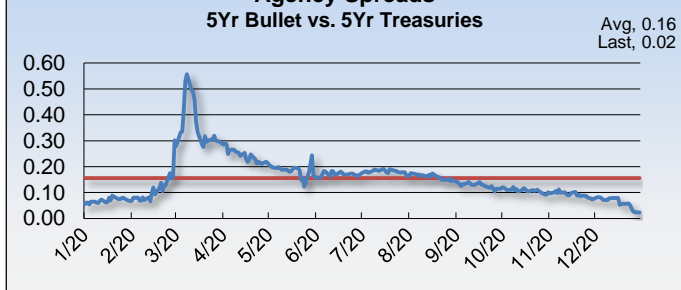
On Friday, the other shoe of domestic inflation will fall with the BLS report on Producer Prices. In December, headline PPI probably rose 0.3% with the core rate likely advancing by 0.1%. If so, year-over-year headline PPI will come in at 0.7% and that's down one-tenth from November. Without food and energy, year-over-year core PPI also probably fell one-tenth to 1.3%. Also scheduled for release Friday morning will be the Census Bureau's report for December's Retail Sales. After sliding 1.1% in November, forecasters are looking for last month's growth to be zero. Growth in core Retail Sales, without food, gas, autos, and building materials, is also expected to be flat. More Friday news will come from the Census Bureau when it is expected to announce that Capacity Utilization rose two-tenths last month to 73.5%. We will also learn that Industrial Production rose by 0.4% last month and that would match November's gain. The University of Michigan will close out the week with its preliminary report on its December Index of Consumer Sentiment. It's expected to show a dip to 80 from last month's 80.7. Go figure.

So far this morning, investors might be figuring that the recent sell-off in Treasuries has gone far enough, at least for now, and bond prices are up a little bit. The Ten-Year's yield rests at about 1.1% with the Long Bond looking pretty steady at around 1.86%. Crude oil is off a bit to \$51.88 with gold also slipping slightly to \$1,839. Here's to a boring week; be careful out there.

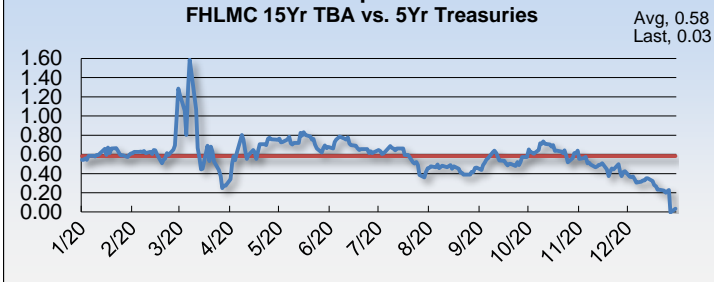
Treasury Yield Curve - Current vs. 1-Month



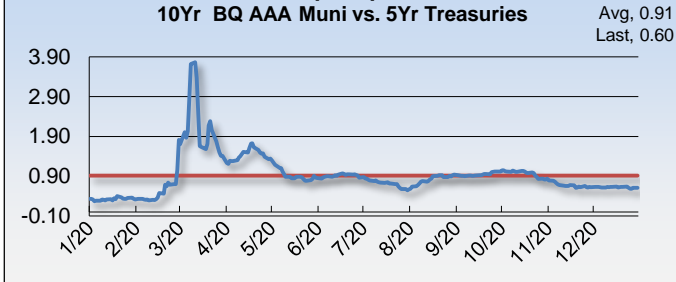
Agency Spreads  
5Yr Bullet vs. 5Yr Treasuries



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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.08	0.01	0.07	0.13	1.53	2yr	0.16	0.21	0.21	0.22	0.21	2Yr	0.10	0.10	0.10	-
6mo	0.09	0.01	0.08	0.15	1.55	3yr	0.27	0.29	0.24	0.25	0.37	3Yr	0.17	0.17	0.10	0.17
1yr	0.10	(0.00)	0.08	0.14	1.52	5yr	0.53	0.56	0.36	0.39	0.70	5Yr	0.52	0.51	0.49	0.45
2yr	0.13	0.02	0.12	0.16	1.57	7yr	0.78	0.83	0.66	0.70	1.09	7Yr	0.77	0.86	0.86	0.81
3yr	0.22	0.06	0.18	0.19	1.59	10yr	1.30	1.12	1.09	1.16	1.52	10Yr	1.08	1.25	1.26	1.21
5yr	0.48	0.13	0.37	0.31	1.63	15yr	1.81	1.40	1.50	1.59	2.07	February TBA MBS				
7yr	0.81	0.18	0.63	0.49	1.74	20yr	2.32	1.52	1.78	1.89	2.62	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.12	0.20	0.90	0.65	1.82	25yr	2.82	1.58	1.91	2.03	2.67	2.00	0.80	3.8y	1.32	
30yr	1.87	0.22	1.63	1.34	2.28	30yr		1.61	2.04	2.18	2.72	2.50	0.80	2.9y		
												3.00	1.04	2.8y	0.91	2.5y
												3.50	0.62	2.3y	0.41	2.0y
												4.00			0.63	2.2y
												4.50			0.75	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	0.02	0.07	0.10	--
1 Month LIBOR	0.13	(0.02)	0.15	0.19	1.68
3 Month LIBOR	0.22	(0.01)	0.23	0.27	1.83
6 Month LIBOR	0.25	(0.01)	0.25	0.35	1.87
1 Year LIBOR	0.33	(0.01)	0.34	0.49	1.95
6 Month CD	0.18	--	0.31	0.26	1.91
1 Year CMT	0.10	--	0.10	0.15	1.55
REPO O/N	0.10	(0.02)	0.10	0.15	1.58
REPO 1Wk	0.09	(0.01)	0.08	0.09	1.60
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	0.087
Feb-21	0.080
Mar-21	0.075
Apr-21	0.070
May-21	0.070
Jun-21	0.070
Jul-21	0.070
Aug-21	0.070
Sep-21	0.075
Oct-21	0.075
Nov-21	0.075

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/12	NFIB Small Business Optimism	Dec	100.0	--	101.4	--
1/12	JOLTS Job Openings	Nov	6400	--	6652	--
1/13	MBA Mortgage Applications	1/8	--	--	1.7%	--
1/13	CPI MoM	Dec	0.4%	--	0.2%	--
1/13	CPI Ex Food and Energy MoM	Dec	0.1%	--	0.2%	--
1/13	CPI YoY	Dec	1.3%	--	1.2%	--
1/13	CPI Ex Food and Energy YoY	Dec	1.6%	--	1.6%	--
1/13	CPI Index NSA	Dec	260.40	--	260.23	--
1/13	CPI Core Index SA	Dec	270.24	--	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	-\$145.0b	--	-\$145.3b	--
1/14	Initial Jobless Claims	1/9	790k	--	787k	--
1/14	Import Price Index MoM	Dec	0.7%	--	0.1%	--
1/14	Continuing Claims	1/2	5000k	--	5072k	--
1/14	Import Price Index ex Petroleum MoM	Dec	0.1%	--	0.0%	--
1/14	Import Price Index YoY	Dec	-0.8%	--	-1.0%	--
1/14	Export Price Index MoM	Dec	0.6%	--	0.6%	--
1/14	Export Price Index YoY	Dec	--	--	-1.1%	--
1/14	Bloomberg Consumer Comfort	1/10	--	--	44.4	--
1/15	PPI Final Demand MoM	Dec	0.4%	--	0.1%	--
1/15	PPI Ex Food and Energy MoM	Dec	0.1%	--	0.1%	--
1/15	PPI Ex Food, Energy, Trade MoM	Dec	0.2%	--	0.1%	--
1/15	PPI Final Demand YoY	Dec	0.8%	--	0.8%	--
1/15	PPI Ex Food, Energy, Trade YoY	Dec	0.9%	--	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	-0.3%	--	-0.8%	--
1/15	Retail Sales Control Group	Dec	0.1%	--	-0.5%	--
1/15	Capacity Utilization	Dec	73.6%	--	73.3%	--
1/15	Industrial Production MoM	Dec	0.5%	--	0.4%	--
1/15	Manufacturing (SIC) Production	Dec	0.5%	--	0.8%	--
1/15	Business Inventories	Nov	0.5%	--	0.7%	--
1/15	U. of Mich. Sentiment	Jan P	79.9	--	80.7	--
1/15	U. of Mich. Current Conditions	Jan P	--	--	90.0	--
1/15	U. of Mich. 1 Yr Inflation	Jan P	2.5%	--	2.5%	--
1/19	Total Net TIC Flows	Nov	--	--	-\$10.4b	--
1/19	Net Long-term TIC Flows	Nov	--	--	\$51.9b	--
1/20	NAHB Housing Market Index	Jan	86	--	86	--
1/21	Building Permits	Dec	1600k	--	<del>1639k</del>	1635k
1/21	Housing Starts	Dec	1560k	--	1547k	--
1/21	Philadelphia Fed Business Outlook	Jan	12.8	--	11.1	--
1/21	Bloomberg Economic Expectations	Jan	--	--	38.5	--
1/22	Markit US Manufacturing PMI	Jan P	--	--	57.1	--
1/22	Markit US Composite PMI	Jan P	--	--	55.3	--
1/22	Markit US Services PMI	Jan P	--	--	54.8	--
1/22	Existing Home Sales	Dec	6.53m	--	6.69m	--

MBS Prepayments <sup>4</sup>						
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	18.1	21.6	20.6	23.8	22.8	18.4
FH/FN 15y	16.7	23.2	24.0	34.4	19.4	21.0
GN 15y	25.6	16.1	16.7	15.4	14.0	13.2
FH/FN 20y	16.9	21.5	22.1	21.7	21.0	18.0
FH/FN 30y	14.9	21.4	35.3	38.0	35.6	32.0
GN 30y	11.5	21.3	28.9	32.3	34.9	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	104.23	1.10	104.04	107.29	109.95
Euro	1.22	(0.01)	1.21	1.13	1.11
Dollar Index	90.65	0.78	90.98	96.65	97.36
<b>Major Stock Indices</b>					
Dow Jones	31,098	491	30,046	26,075	28,824
S&P 500	3,824.7	68.6	3,663.5	3,185.0	3,265.4
NASDAQ	13,202.0	314	12,377.9	10,617.4	9,178.9
<b>Commodities</b>					
Gold	1,836.5	(110.1)	1,839.8	1,801.9	1,560.1
Crude Oil	51.69	4.07	46.57	40.55	59.04
Natural Gas	2.67	0.09	2.59	1.81	2.20
Wheat	644.8	2.8	608.3	535.8	564.5
Corn	496.3	12.5	424.3	340.5	385.8

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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