

Baker Market Update: Week in Preview

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



As last week's winter storm slowly loses its grip on much of America, is the Fed slowly losing its grip on the yield curve? In the last 30 days, the Ten-Year's yield is up more than 30 basis points and the Thirty-Year's yield has risen almost 40. Reopening progress, vaccination progress, and progressive relief progress have all lifted economic expectations along with the prospects of rising inflation. We'll learn more about just what kind of grip the FOMC has on our economic condition and monetary policy when Chairman Powell makes the first of his semi-annual appearances before the Senate Banking Committee on Tuesday. If the redoubtable Mr. Powell has had any misgivings about the behavior of the Treasury market of late, he hasn't given much indication of it in any recent public comments. His private comments are private.

But that's tomorrow and today's news has already begun with the announcement by the Chicago Fed that its National Activity Index rose to 0.66 last month and that beat estimates looking for 0.5. December's value of 0.52 was revised to 0.41. A little later today, the Conference Board is expected to tell us that its Index of Leading Economic Indicators rose 0.4% last month and that was one-tenth better than the month before. Also a little later, the Dallas Fed will release its Manufacturing Index for this month and a slide to 5 from 7 is what analysts anticipate. Treasury prices are slightly softer in early trading with the Ten-Year yielding around 1.35% and the Long Bond at 2.14%.

Tomorrow morning, before Jerome heads to Capitol Hill, we're scheduled to learn from the FHFA that its House Price Index rose another 0.9% in December after rising 1% the prior month. Anyone that's gone house-hunting in the past year doesn't need an FHFA report to know that home prices are up, but they'll get one anyway. Nor do they need another Case-Shiller report saying much the same thing, but they'll get one of those, too, when CoreLogic's Tuesday report is expected to show that its 20-City Index rose 1.25% in December and is up 10% year-over-year. How much longer can home prices continue to rise faster than incomes? That's a little dicey, and one supposes it will have a lot to do with how consumers are feeling about things.

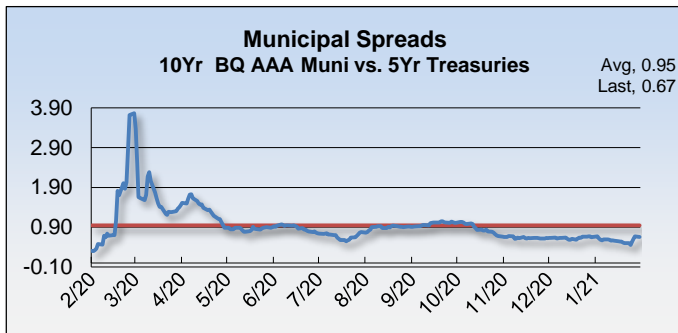
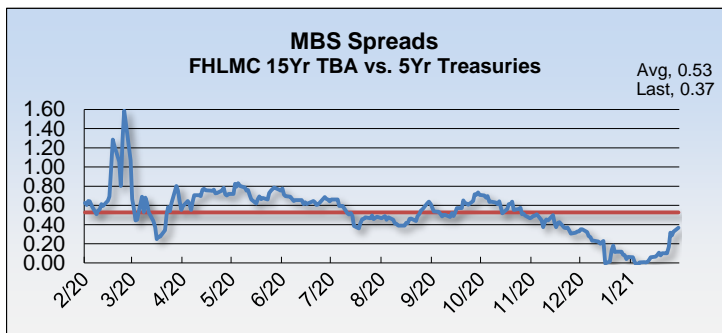
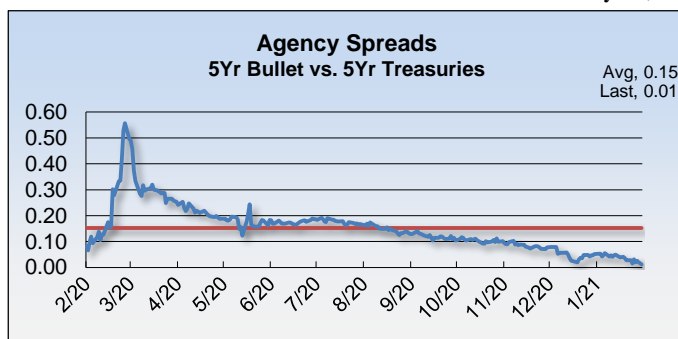
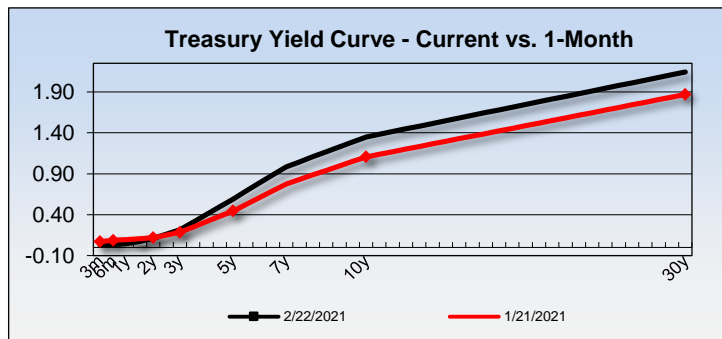
And thanks to the Conference Board, we'll know more about that when it reports tomorrow that its Consumer Confidence Index might have improved slightly this month to 90 from last month's 89.3. It might move a little higher if houses didn't cost so much. The Treasury is planning on selling \$60B Two-Year notes after that, but no one knows yet how much they'll cost. Not sure it matters anymore.

On Wednesday, the Census Bureau is expected to report that New Home Sales rose about 1.5% in January to an annualized rate of 855k. Then, \$61B Five-Year Treasury notes get sold to the highest bidder.

Thursday's a big data day that always includes the latest weekly Jobless Claims numbers from the BLS. This week, Initial Claims for the week ending February 20th are expected to total 840k in a slight drop from the prior week's 861k. Continuing Claims for the week ending February 13th are expected to show a dip to 4.42M from 4.49M. Jerome will probably have a thing or two to say about the labor market when he talks to Congress this week. The Census Bureau will have a thing or two to say about Durable Goods Orders in January and one of them might be that they rose by 1.1% last month. The other thing might be that, without Transportation, those Orders rose by 0.7%. This is a preliminary report and they'll have more to say about it later. The Bureau of Economic Analysis will also give us a glimpse of its second GDP estimate for last year's fourth quarter, and the first estimate of 4% is expected to rise to 4.2% following the latest recount. Also from the BEA, Q4 averages for Personal Consumption and Core PCE will be announced but apart from maybe satisfying idle curiosity, they won't tell us much. The National Association of Realtors is expected to tell us that Pending Home Sales fell 0.5% last month and if they do, that will make it five falling months in a row. Some observers see this as a sign of a cooling housing market while others see a market that's so hot, there just aren't enough homes to be penderly sold. We're also supposed to hear from the Kansas City Fed that its Manufacturing Index slipped to 15 this month from January's 17, and whether it did or not, the Treasury is still going ahead with the sale of \$62B Seven-Year notes.

On Friday, the BEA will get things started with an eye-popping report that Personal Income might have jumped 9.5% in the month of January as transfer payments did their magic. Personal Spending is expected to show a January rise of 2.4% after December's slip of 0.2%. Inflation-adjusted Real Personal Spending should show monthly growth of 2.2% for January in a turnaround from the prior month's slide of 0.6%. And for a report on the inflation that's on the minds of so many, surveys suggest that the BEA's report on January's Personal Consumption Expenditures Index will show a monthly rise of 0.3% and a one-tenth boost in the year-over-year rate to 1.4%. Without food and energy, core PCE is expected to notch a January gain of 0.1% while the year-over-year pace may have fallen one-tenth to 1.4%. Such a tepid report is unlikely to assuage the inflation-phobes; nor should it. Historical inflation can't hurt us, but future inflation can. But are jittery bond markets getting ahead of themselves just a little bit? Maybe more than just a little bit? Time will tell, but the stock market is not the economy and borrowed money has to eventually be repaid and all that debt has to be serviced. Yes, money supply has exploded, but velocity has imploded.

Consumers might have something to say about inflation, too, and we'll learn about what some of them are thinking when the University of Michigan closes out the week's data with its February Index of Consumer Sentiment. January's 76.2 is only expected to have improved by two-tenths this month. It's still pretty cold in Michigan. Have a great week; 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	0.03	(0.01)	0.07	0.09	1.55	2yr	0.14	0.20	0.17	0.18	0.19	2Yr	0.03	0.03	0.03	-
6mo	0.04	(0.02)	0.08	0.11	1.52	3yr	0.26	0.33	0.28	0.30	0.38	3Yr	0.14	0.14	0.10	0.14
1yr	0.05	(0.02)	0.09	0.12	1.43	5yr	0.65	0.72	0.49	0.52	0.75	5Yr	0.59	0.59	0.58	0.52
2yr	0.11	(0.00)	0.12	0.14	1.36	7yr	0.97	1.07	0.77	0.82	1.17	7Yr	0.98	1.01	1.00	0.93
3yr	0.22	0.02	0.19	0.16	1.35	10yr	1.47	1.43	1.22	1.30	1.75	10Yr	1.40	1.45	1.44	1.38
5yr	0.59	0.10	0.43	0.27	1.32	15yr	1.98	1.72	1.58	1.68	2.12	March TBA MBS				
7yr	0.99	0.14	0.76	0.44	1.40	20yr	2.49	1.84	1.86	1.98	2.75	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.35	0.14	1.09	0.63	1.47	25yr	3.01	1.89	2.00	2.12	2.80	2.00	1.04	4.2y	1.73	
30yr	2.14	0.13	1.85	1.34	1.92	30yr		1.92	2.13	2.26	2.85	2.50	0.70	2.8y		
												3.00	0.94	2.9y	1.16	2.9y
												3.50	0.71	2.5y	0.95	2.6y
												4.00			0.78	2.5y
												4.50			0.66	2.5y

* 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	0.02	(0.03)	0.07	0.09	--
1 Month LIBOR	0.12	0.01	0.13	0.17	1.64
3 Month LIBOR	0.18	(0.02)	0.22	0.25	1.70
6 Month LIBOR	0.20	(0.01)	0.24	0.30	1.70
1 Year LIBOR	0.29	(0.01)	0.31	0.44	1.77
6 Month CD	0.21	0.08	0.18	0.19	1.69
1 Year CMT	0.07	0.01	0.10	0.13	1.47
REPO O/N	0.04	(0.04)	0.07	0.08	1.60
REPO 1Wk	0.07	--	0.08	0.09	1.59
CoF Federal	0.925	--	0.958	1.158	1.955
11th D. CoF (Dec)	0.460	--	0.466	0.682	1.036

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.23	0.33	0.28
6mo	0.23	0.32	0.26
1yr	0.28	0.28	0.28
2yr	0.31	0.46	0.32
3yr	0.39	0.59	0.44
4yr	0.58	0.79	0.63
5yr	0.75	0.97	0.80
7yr	1.15	1.43	1.21
10yr	1.57	1.88	1.63
5yr Am	0.49		0.61
10yr Am	1.10		1.20

Fed Fund Futures	
Maturity	Rate
Feb-21	0.075
Mar-21	0.065
Apr-21	0.075
May-21	0.085
Jun-21	0.085
Jul-21	0.090
Aug-21	0.090
Sep-21	0.090
Oct-21	0.095
Nov-21	0.095
Dec-21	0.095

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/22	Chicago Fed Nat Activity Index	Jan	0.50	0.66	0.52	0.41
2/22	Leading Index	Jan	0.4%	--	0.3%	--
2/23	House Price Purchase Index QoQ	4Q	--	--	3.1%	--
2/23	FHFA House Price Index MoM	Dec	1.0%	--	1.0%	--
2/23	S&P CoreLogic CS 20-City YoY NSA	Dec	9.90%	--	9.08%	--
2/23	S&P CoreLogic CS US HPI YoY NSA	Dec	--	--	9.49%	--
2/23	Conf. Board Consumer Confidence	Feb	90.0	--	89.3	--
2/23	Conf. Board Present Situation	Feb	--	--	84.4	--
2/23	Conf. Board Expectations	Feb	--	--	92.5	--
2/24	New Home Sales	Jan	855k	--	842k	--
2/25	Durables Ex Transportation	Jan P	0.7%	--	1.1%	--
2/25	Initial Jobless Claims	2/20	825k	--	861k	--
2/25	Cap Goods Orders Nondef Ex Air	Jan P	0.8%	--	0.7%	--
2/25	GDP Annualized QoQ	4Q S	4.2%	--	4.0%	--
2/25	Continuing Claims	2/13	4420k	--	4494k	--
2/25	Cap Goods Ship Nondef Ex Air	Jan P	0.6%	--	0.7%	--
2/25	Personal Consumption	4Q S	2.5%	--	2.5%	--
2/25	GDP Price Index	4Q S	2.0%	--	2.0%	--
2/25	Core PCE QoQ	4Q S	1.4%	--	1.4%	--
2/25	Pending Home Sales NSA YoY	Jan	--	--	22.8%	--
2/26	Personal Income	Jan	9.5%	--	0.6%	--
2/26	Real Personal Spending	Jan	2.2%	--	-0.6%	--
2/26	PCE Deflator YoY	Jan	1.4%	--	1.3%	--
2/26	PCE Core Deflator YoY	Jan	1.4%	--	1.5%	--
2/26	MNI Chicago PMI	Feb	61.0	--	63.8	--
2/26	U. of Mich. Sentiment	Feb F	76.5	--	76.2	--
2/26	U. of Mich. Current Conditions	Feb F	--	--	86.2	--
2/26	U. of Mich. 1 Yr Inflation	Feb F	--	--	3.3%	--
3/1	Markit US Manufacturing PMI	Feb F	--	--	58.5	--
3/1	ISM Manufacturing	Feb	58.6	--	58.7	--
3/1	ISM Prices Paid	Feb	--	--	82.1	--
3/1	ISM New Orders	Feb	--	--	61.1	--
3/1	ISM Employment	Feb	--	--	52.6	--
3/3	ADP Employment Change	Feb	175k	--	174k	--
3/3	Markit US Composite PMI	Feb F	--	--	58.8	--
3/4	Challenger Job Cuts YoY	Feb	--	--	17.4%	--
3/4	Nonfarm Productivity	4Q F	-4.7%	--	-4.8%	--
3/4	Unit Labor Costs	4Q F	6.7%	--	6.8%	--
3/5	Average Hourly Earnings YoY	Feb	--	--	5.4%	--
3/5	Change in Nonfarm Payrolls	Feb	200k	--	49k	--
3/5	Two-Month Payroll Net Revision	Feb	--	--	-159k	--
3/5	Change in Private Payrolls	Feb	190k	--	6k	--
3/5	Change in Manufact. Payrolls	Feb	--	--	-10k	--
3/5	Unemployment Rate	Feb	6.40%	--	6.30%	--
3/5	Average Weekly Hours All Employees	Feb	34.9	--	35.0	--
3/5	Labor Force Participation Rate	Feb	--	--	61.4%	--
3/5	Underemployment Rate	Feb	--	--	11.1%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.4	25.0	26.7	28.6	28.5	27.5
FH/FN 15y	13.8	34.4	40.4	45.0	22.3	22.2
GN 15y	20.3	19.3	18.9	19.8	17.8	19.0
FH/FN 20y	54.3	32.5	33.3	32.1	30.4	24.0
FH/FN 30y	3.5	23.0	57.6	56.5	56.8	52.3
GN 30y	11.4	18.1	42.3	51.7	41.8	28.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	15.1	18.8	17.8	21.4	17.9	15.6
FH/FN 15y	14.6	22.5	23.2	32.5	19.0	21.7
GN 15y	20.0	15.4	15.5	14.4	13.5	13.1
FH/FN 20y	12.0	19.2	20.6	28.4	20.0	17.8
FH/FN 30y	10.5	17.1	32.0	33.6	34.1	32.0
GN 30y	10.3	16.6	23.6	22.3	30.1	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.37	(0.01)	103.78	105.98	110.72
Euro	1.21	0.00	1.22	1.18	1.09
Dollar Index	90.24	(0.24)	90.24	93.25	99.26
Major Stock Indices					
Dow Jones	31,494	64	30,997	27,930	28,992
S&P 500	3,906.7	(9.7)	3,841.5	3,397.2	3,337.8
NASDAQ	13,874.5	(151)	13,543.1	11,311.8	9,576.6
Commodities					
Gold	1,794.0	(27.6)	1,856.2	1,934.6	1,644.6
Crude Oil	59.84	0.37	52.27	42.34	53.38
Natural Gas	2.93	0.02	2.45	2.45	1.91
Wheat	654.3	17.5	634.5	527.3	551.0
Corn	545.3	6.5	500.5	327.0	377.0

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

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have any

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 02/22/2021 8:15AM