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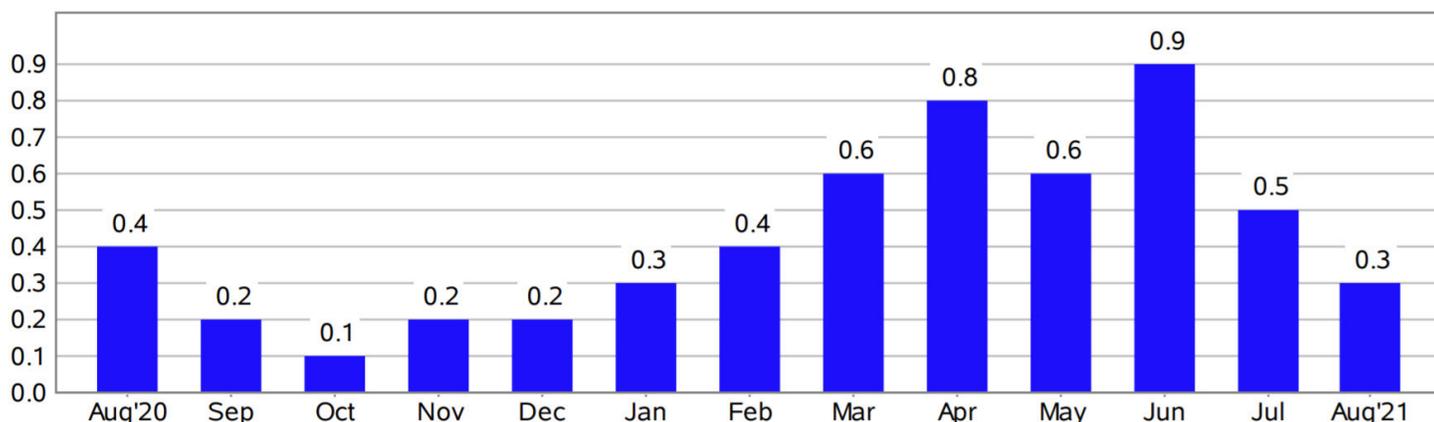
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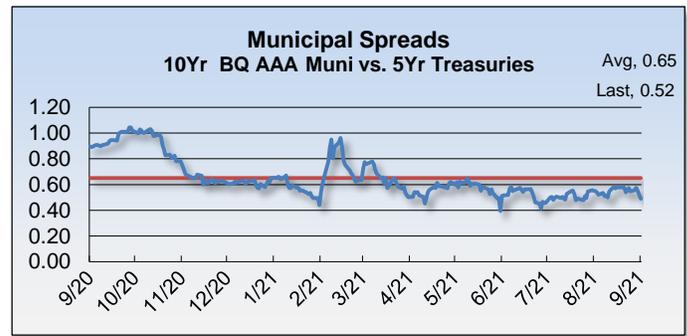
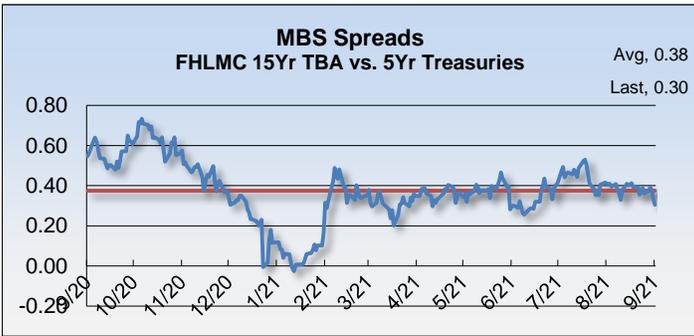
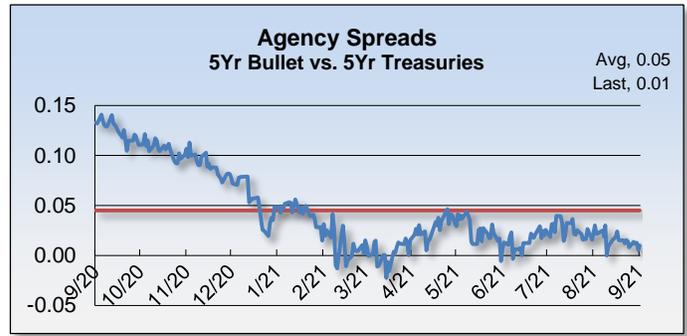
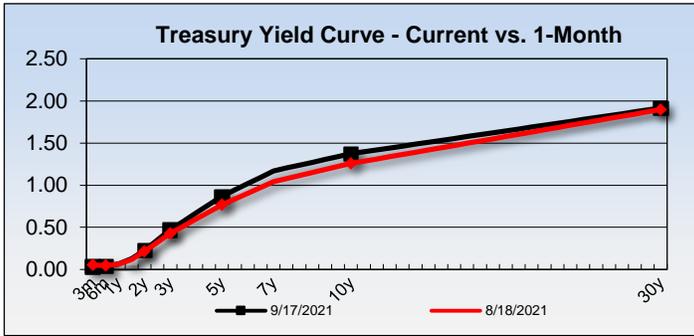
This week's economic data were welcome news for the Federal Reserve, showing both a slowdown of inflation and an unexpected increase in Retail Sales. The Fed has long held to its expectation that the recent spike in consumer prices was driven by temporary pandemic related factors and the currently higher than desired level of inflation would be "transitory." Tuesday's release of the Consumer Price Index (CPI) seemed to confirm that expectation as the index rose just 0.3% in August, smaller than expectations for a 0.4% increase and a third as much as the 0.9% increase just two months ago in June (see Chart 1 below). A big reason for the moderation of CPI since early summer was the 1.5% drop in Used Car Prices in August versus the 7-10% increases each month in the Apr-Jun period. Also contributing to the moderation was the 2.3% drop in the price of Transportation Services which includes fares. As more pandemic related bottlenecks in the economy and the supply chain continue to work themselves out, the Fed is betting the recent moderation in prices will continue and inflation will ultimately average 2% over time.

We won't have to wait long to hear from the Fed as the FOMC meets this week and will release updated economic projections on Wednesday. While no one is expecting a significant change in the Fed's statement, analysts will be closely watching for any potential news on two fronts. First, the Fed will release an updated "Dot Plot" and we will be looking for any indication FOMC members have altered their view of when and how quickly the Fed should begin raising rates (currently pegged at 2 hikes in 2023). Second, Chairman Powell's press conference will be closely monitored for any additional indication the Fed is getting closer to "tapering" their \$120 billion of monthly bond purchases. Economists recently surveyed by Bloomberg expect an official taper announcement to come in November with the slowdown in bond purchases beginning in December or January and lasting 6-10 months. So far, the Fed has managed expectations of the upcoming taper much better than it did in 2013 when the Fed spooked the market with poor communication and the 10yr Treasury Yield rose 140bp in four months before falling all the way back to record lows by 2016. This week the 10yr yield rose just 3bp to finish the week at 1.37%.

**Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Aug. 2020 - Aug. 2021**  
Percent change



Source: Bureau of Labor Statistics



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	0.03	(0.01)	0.07	0.01	0.09	2yr	0.25	0.34	0.15	0.16	0.28	2Yr	0.10	0.10	0.10	-
6mo	0.04	(0.01)	0.05	0.04	0.11	3yr	0.44	0.60	0.24	0.25	0.50	3Yr	0.35	0.35	0.30	0.35
1yr	0.07	(0.00)	0.07	0.06	0.12	5yr	0.71	0.97	0.57	0.61	0.93	5Yr	0.83	0.83	0.82	0.76
2yr	0.23	0.01	0.22	0.13	0.14	7yr	1.26	1.21	0.92	0.98	1.29	7Yr	1.13	1.15	1.14	1.07
3yr	0.47	0.03	0.43	0.30	0.18	10yr	1.45	1.42	1.30	1.39	1.63	10Yr	1.38	1.44	1.43	1.36
5yr	0.87	0.05	0.77	0.80	0.28	15yr	1.64	1.59	1.61	1.71	2.10	October TBA MBS				
7yr	1.17	0.05	1.05	1.28	0.47	20yr	1.83	1.67	1.86	1.98	2.32	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.37	0.03	1.26	1.65	0.69	25yr	2.01	1.69	2.00	2.13	2.37	2.00	1.10	4.0y	1.85	
30yr	1.92	(0.02)	1.92	2.42	1.44	30yr	2.01	1.69	2.14	2.28	2.42	2.50	0.96	3.2y		
												3.00	1.03	2.8y	1.71	4.1y
												3.50	0.69	2.5y	1.81	3.9y
												4.00			1.89	3.8y
												4.50			2.13	3.9y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	0.25
Primary Discount	0.25	--	0.25	0.25	0.25
2ndary Discount	0.75	--	0.75	0.75	0.75
Prime Rate	3.25	--	3.25	3.25	3.25
Sec. O.N. Finance	0.05	--	0.05	0.01	--
1 Month LIBOR	0.08	(0.00)	0.09	0.11	0.15
3 Month LIBOR	0.12	0.00	0.12	0.18	0.25
6 Month LIBOR	0.15	(0.00)	0.16	0.20	0.27
1 Year LIBOR	0.22	(0.00)	0.24	0.28	0.39
6 Month CD	0.13	(0.06)	0.10	0.22	0.20
1 Year CMT	0.07	--	0.08	0.07	0.12
REPO O/N	0.06	(0.01)	0.05	0.02	0.11
REPO 1Wk	0.13	--	0.14	0.06	0.09
CoF Federal	0.780	--	0.785	0.911	1.107
11th D. CoF (Jul)	0.263	--	0.282	0.457	0.653

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.33	0.26
6mo	0.22	0.32	0.26
1yr	0.28	0.29	0.29
2yr	0.42	0.60	0.44
3yr	0.65	0.85	0.67
4yr	0.88	1.08	0.90
5yr	1.04	1.26	1.05
7yr	1.37	1.62	1.39
10yr	1.67	1.94	1.69
5yr Am	0.73		0.83
10yr Am	1.29		1.34

Fed Fund Futures	
Maturity	Rate
Sep-21	0.078
Oct-21	0.080
Nov-21	0.080
Dec-21	0.080
Jan-22	0.080
Feb-22	0.080
Mar-22	0.080
Apr-22	0.085
May-22	0.085
Jun-22	0.095
Jul-22	0.105

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
9/13	Monthly Budget Statement	Aug	-\$175.0b	-\$170.6b	-\$200.0b	--
9/14	NFIB Small Business Optimism	Aug	99.0	100.1	99.7	--
9/14	CPI YoY	Aug	5.3%	5.3%	5.4%	--
9/14	CPI Ex Food and Energy YoY	Aug	4.2%	4.0%	4.3%	--
9/14	CPI Index NSA	Aug	273.84	273.57	273.00	--
9/14	CPI Core Index SA	Aug	279.73	279.34	279.05	--
9/14	Real Avg Hourly Earning YoY	Aug	--	-0.9%	-1.2%	--
9/14	Real Avg Weekly Earnings YoY	Aug	--	-0.01	-0.01	-0.01
9/15	Empire Manufacturing	Sep	17.9	34.3	18.3	--
9/15	Import Price Index YoY	Aug	0.09	0.09	0.10	0.10
9/15	Export Price Index YoY	Aug	0.17	0.17	0.17	0.17
9/15	Capacity Utilization	Aug	76.4%	76.4%	76.1%	76.2%
9/15	Manufacturing (SIC) Production	Aug	0.4%	0.2%	1.4%	1.6%
9/16	Philadelphia Fed Business Outlook	Sep	19.0	30.7	19.4	--
9/16	Retail Sales Ex Auto and Gas	Aug	0.0%	2.0%	-0.7%	-1.4%
9/16	Retail Sales Control Group	Aug	0.00	0.03	-0.01	-0.02
9/16	Business Inventories	Jul	0.01	0.01	0.01	0.01
9/16	Total Net TIC Flows	Jul	--	\$126.0b	\$31.5b	\$32.0b
9/16	Net Long-term TIC Flows	Jul	--	\$2.0b	\$110.9b	--
9/17	U. of Mich. Sentiment	Sep P	72.0	71.0	70.3	--
9/17	U. of Mich. Current Conditions	Sep P	--	77.1	78.5	--
9/17	U. of Mich. Expectations	Sep P	--	67.1	65.1	--
9/17	U. of Mich. 1 Yr Inflation	Sep P	0.05	0.05	0.05	--
9/17	U. of Mich. 5-10 Yr Inflation	Sep P	--	2.9%	2.9%	--
9/20	NAHB Housing Market Index	Sep	74.0	--	75.0	--
9/21	Building Permits	Aug	1600k	--	1635k	1630k
9/21	Current Account Balance	2Q	-\$191.0b	--	-\$195.7b	--
9/21	Housing Starts	Aug	1550k	--	1534k	--
9/21	20Y High Yield Rate	9/21	--	--	1.85%	--
9/21	20Y Bid/Cover Ratio	9/21	--	--	2.44%	--
9/21	20Y Direct Accepted %	9/21	--	--	18.7%	--
9/21	20Y Indirect Accepted %	9/21	--	--	62.3%	--
9/22	MBA Mortgage Applications	9/17	--	--	0	--
9/22	Existing Home Sales	Aug	5.87m	--	5.99m	--
9/22	FOMC Rate Decision (Upper Bound)	9/22	0.25%	--	0.25%	--
9/22	Interest on Reserve Balances Rate	9/23	--	--	0.15%	--
9/23	Chicago Fed Nat Activity Index	Aug	50.0%	--	53.0%	--
9/23	Initial Jobless Claims	9/18	320k	--	332k	--
9/23	Continuing Claims	9/11	--	--	2665k	--
9/23	Markit US Manufacturing PMI	Sep P	60.5	--	61.1	--
9/23	Markit US Services PMI	Sep P	55.0	--	55.1	--
9/23	Markit US Composite PMI	Sep P	--	--	55.4	--
9/23	Leading Index	Aug	0.01	--	0.01	--
9/23	Kansas City Fed Manf. Activity	Sep	25	--	29	--
9/23	8W High Yield Rate	9/23	--	--	0	--
9/23	8W Bid/Cover Ratio	9/23	--	--	3.45	--
9/23	8W Direct Accepted %	9/23	--	--	7.6%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.6	25.6	27.3	27.3	30.3	18.0
FH/FN 15y	12.6	30.6	35.9	41.1	32.7	23.8
GN 15y	19.6	21.4	21.2	20.0	20.1	19.4
FH/FN 20y	55.2	25.1	28.5	28.6	29.5	24.4
FH/FN 30y	8.6	16.9	44.9	48.2	49.1	49.6
GN 30y	7.4	19.8	31.3	53.7	54.4	30.4
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.5	18.6	19.2	20.3	21.4	20.1
FH/FN 15y	15.4	18.5	21.7	25.5	23.4	21.4
GN 15y	14.2	14.3	14.4	13.5	12.7	12.5
FH/FN 20y	14.1	16.5	16.3	16.6	16.7	16.4
FH/FN 30y	11.3	14.1	20.9	21.7	23.0	21.7
GN 30y	9.0	11.8	16.8	16.1	16.5	12.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	110.02	0.08	109.60	108.84	104.74
Euro	1.17	(0.01)	1.17	1.20	1.18
Dollar Index	93.09	0.51	93.13	91.44	92.97
<b>Major Stock Indices</b>					
Dow Jones	34,628	20	35,343	33,015	27,902
S&P 500	4,446.0	(12.6)	4,448.1	3,974.1	3,357.0
NASDAQ	15,081.1	(34)	14,656.2	13,525.2	10,910.3
<b>Commodities</b>					
Gold	1,749.3	(40.6)	1,785.0	1,727.1	1,941.3
Crude Oil	71.68	1.96	66.59	64.60	40.97
Natural Gas	5.22	0.28	3.84	2.53	2.04
Wheat	708.3	33.3	734.5	640.0	556.3
Corn	524.3	21.5	558.3	558.0	375.3

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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