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The Federal Reserve has numerous tools at its disposal that can be used to conduct monetary policy. Rate moves, reserve requirements, open market operations, asset purchases or sales (QE or QT), etc. One tool that's been increasingly used with mixed results in recent years is "communications policy" or forward guidance on monetary policy. Right now, communications policy is being heavily deployed by FOMC members, and the message is unambiguous. The Fed has told us loudly and clearly that they are unwavering in their commitment to crushing inflation, and they will do whatever it takes for as long as is necessary to make that happen. Fed Chair Powell has led the charge, but a parade of policymakers has given speeches and interviews that reiterate the message. Cleveland Fed President Mester was on the tape yesterday talking about the risk of "declaring victory over the inflation beast too soon" followed by Vice Chair Brainerd who echoed that sentiment. But James Bullard's interview this morning was to the point in emphasizing his concern that the market is underestimating the commitment and resolve of the Fed. Per Bullard: "I have felt Wall Street is underpricing the idea that inflation may just be relatively high and it may take quite a while to bring it back to 2%. This would mean interest rates have to be higher for longer. That's a scenario that is not garnering enough attention in today's market pricing."

UPCOMING EVENTS

Interest Rate Risk and Investment Strategies Seminar

October 19–21, 2022
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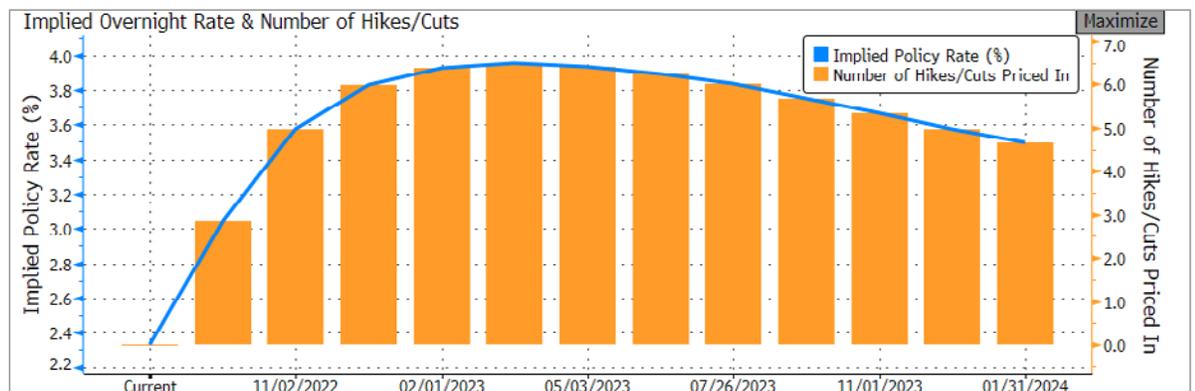


It's absolutely true that forward pricing in bonds and futures markets are projecting and expecting the Fed to stop-and-reverse in the middle of next year, removing at least some portion of the current tightening. For perspective, futures are projecting that the funds rate will reach a level close to 4% in the first half of 2023, only to bend lower in the latter half of the year to finish around 3.5%, implying a half-percent adjustment somewhere along the line presumably due to economic weakness. This seems to be bothering FOMC officials who insist that the market should not expect any easing until inflation data starts to trend lower. Ah, there's the rub. Assuming we've seen peak inflation (and there's no guarantee of that), how far and how fast must it fall in order for the Fed to say mission accomplished? It seems a fair question, but one that no Fed official wants to discuss. For now, they want no discussion of ease... just focus on the inflation fight.

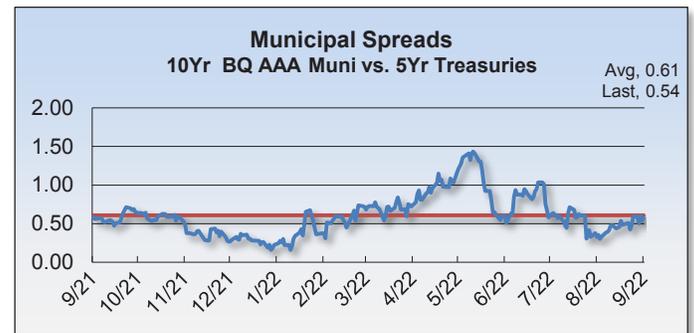
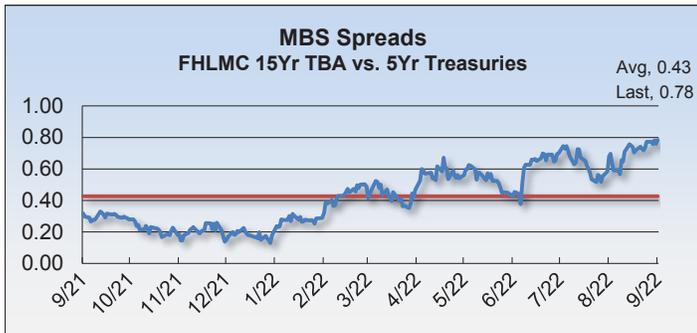
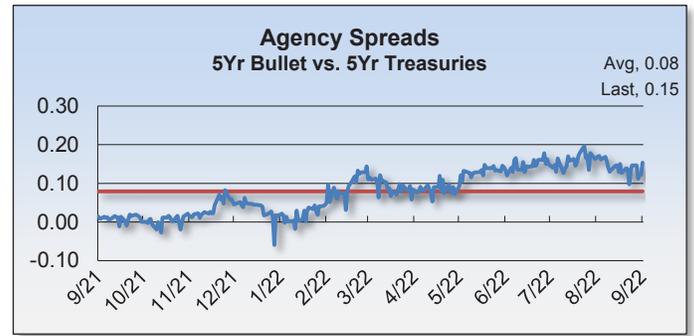
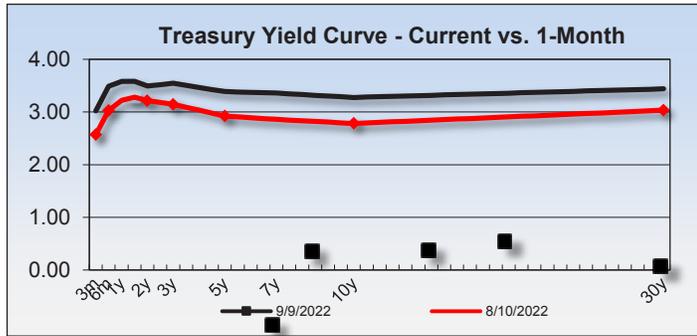
Bond yields flirted with the upper end of the range this week, reaching 3.37% at mid-week and remaining above 3.25% as we approach the weekend... not far from the March high of 3.50%. The short-end, taking cues from the Fed, has jumped to the highest levels in a decade and a half as the 2yr now sits at 3.51%. The curve inversion (2s vs 10s) has lessened, but remains at 22bps.

The data stream this week was incredibly light, but we make up for it next week. Look for data on all-important consumer and wholesale price inflation, plus retail sales and consumer sentiment.

Implied Overnight Fed Funds Rate (Fed Funds Futures)



Source: Bloomberg Finance L.P.



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	3.02	0.13	2.61	0.38	0.04	2yr	3.55	3.85	3.23	3.44	3.65	2Yr	3.49	3.49	3.49	-
6mo	3.49	0.16	3.13	0.73	0.05	3yr	3.61	3.65	3.25	3.46	3.65	3Yr	3.53	3.54	3.50	3.53
1yr	3.58	0.15	3.27	1.12	0.07	5yr	3.48	3.45	3.36	3.58	3.64	5Yr	3.47	3.47	3.46	3.40
2yr	3.49	0.10	3.27	1.68	0.21	7yr	3.50	3.38	3.54	3.77	3.94	7Yr	3.45	3.48	3.47	3.40
3yr	3.54	0.11	3.21	1.85	0.41	10yr	3.64	3.36	3.84	4.08	4.22	10Yr	3.42	3.48	3.47	3.40
5yr	3.39	0.09	2.96	1.88	0.79	15yr	3.79	3.39	4.37	4.65	4.41	October TBA MBS				
7yr	3.36	0.08	2.88	1.93	1.08	20yr	3.95	3.34	4.66	4.96	4.53	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.28	0.08	2.78	1.95	1.30	25yr	4.10	3.23	4.78	5.09	4.59	2.00	3.86	5.8y	4.04	
30yr	3.44	0.09	2.99	2.34	1.90	30yr		3.13	4.90	5.22	4.64	2.50	4.05	5.7y		
												3.00	4.00	5.7y	4.22	10.2y
												3.50	4.07	5.5y	4.32	9.8y
												4.00			4.45	9.4y
												4.50			4.65	7.5y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.50	--	2.50	0.25	0.25
Primary Discount	2.50	--	2.50	0.25	0.25
2ndary Discount	3.00	--	3.00	0.75	0.75
Prime Rate	5.50	--	5.50	3.25	3.25
Sec. O.N. Finance	2.28	(0.01)	2.28	0.05	--
1 Month LIBOR	2.70	0.15	2.37	0.31	0.08
3 Month LIBOR	3.19	0.09	2.87	0.64	0.12
6 Month LIBOR	3.75	0.09	3.43	0.98	0.15
1 Year LIBOR	4.19	(0.03)	3.86	1.38	0.22
6 Month CD	3.82	0.07	3.59	1.06	0.20
1 Year CMT	3.60	0.09	3.30	1.12	0.08
REPO O/N	2.30	--	2.30	0.07	0.06
REPO 1Wk	2.35	(0.03)	2.44	0.16	0.13
CoF Federal	1.508	--	1.283	0.750	0.780
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	3.28	3.34	3.29
6mo	3.65	3.73	3.68
1yr	3.79	3.85	3.89
2yr	3.70	3.81	3.81
3yr	3.70	3.81	3.80
4yr	3.64	3.76	3.74
5yr	3.57	3.71	3.66
7yr	3.67	3.82	3.79
10yr	3.87	4.03	3.97
5yr Am	3.68		3.76
10yr Am	3.78		3.87

Fed Fund Futures	
Maturity	Rate
Sep-22	2.548
Oct-22	3.045
Nov-22	3.525
Dec-22	3.710
Jan-23	3.815
Feb-23	3.905
Mar-23	3.920
Apr-23	3.935
May-23	3.915
Jun-23	3.885
Jul-23	3.850

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
9/6	S&P Global US Services PMI	Aug F	44.2	43.7	44.1	--
9/6	S&P Global US Composite PMI	Aug F	45.0	44.6	45.0	--
9/6	ISM Services Index	Aug	55.3	56.9	56.7	--
9/7	MBA Mortgage Applications	9/2	--	-0.8%	-3.7%	--
9/7	Trade Balance	Jul	-\$70.2b	-\$70.6b	-\$79.6b	-\$80.9b
9/8	Initial Jobless Claims	9/3	235k	222k	232k	228k
9/8	Continuing Claims	8/27	1438k	1473k	1438k	1437k
9/8	Consumer Credit	Jul	\$32.000b	\$23.811b	\$40.154b	\$39.058b
9/9	Wholesale Inventories MoM	Jul F	0.8%	0.6%	0.8%	--
9/9	Wholesale Trade Sales MoM	Jul	0.8%	-1.4%	1.8%	1.6%
9/9	Household Change in Net Worth	2Q	--	--	-\$544b	--
9/13	NFIB Small Business Optimism	Aug	90.5	--	89.9	--
9/13	CPI MoM	Aug	-0.1%	--	0.0%	--
9/13	CPI Ex Food and Energy MoM	Aug	0.3%	--	0.3%	--
9/13	CPI YoY	Aug	8.1%	--	8.5%	--
9/13	CPI Ex Food and Energy YoY	Aug	6.1%	--	5.9%	--
9/13	CPI Index NSA	Aug	295.64	--	296.28	--
9/13	CPI Core Index SA	Aug	296.28	--	295.28	--
9/13	Real Avg Hourly Earning YoY	Aug	--	--	-3.0%	--
9/13	Real Avg Weekly Earnings YoY	Aug	--	--	-3.6%	--
9/13	Monthly Budget Statement	Aug	--	--	-\$211.1b	--
9/14	PPI Ex Food and Energy YoY	Aug	7.1%	--	7.6%	--
9/14	PPI Final Demand MoM	Aug	-0.1%	--	-0.5%	--
9/14	PPI Ex Food and Energy MoM	Aug	0.3%	--	0.2%	--
9/14	PPI Ex Food, Energy, Trade MoM	Aug	--	--	0.2%	--
9/14	PPI Final Demand YoY	Aug	8.9%	--	9.8%	--
9/14	PPI Ex Food, Energy, Trade YoY	Aug	--	--	5.8%	--
9/15	Empire Manufacturing	Sep	-12.8	--	-31.3	--
9/15	Retail Sales Advance MoM	Aug	0.0%	--	0.0%	--
9/15	Retail Sales Ex Auto MoM	Aug	0.0%	--	0.4%	--
9/15	Retail Sales Ex Auto and Gas	Aug	0.7%	--	0.7%	--
9/15	Retail Sales Control Group	Aug	0.5%	--	0.8%	--
9/15	Philadelphia Fed Business Outlook	Sep	2.5	--	6.2	--
9/15	Import Price Index MoM	Aug	-1.3%	--	-1.4%	--
9/15	Import Price Index ex Petroleum MoM	Aug	--	--	-0.7%	--
9/15	Import Price Index YoY	Aug	--	--	8.8%	--
9/15	Export Price Index MoM	Aug	--	--	-3.3%	--
9/15	Export Price Index YoY	Aug	--	--	13.1%	--
9/15	Industrial Production MoM	Aug	0.1%	--	0.6%	--
9/15	Capacity Utilization	Aug	80.3%	--	80.3%	--
9/15	Manufacturing (SIC) Production	Aug	-0.1%	--	0.7%	--
9/15	Business Inventories	Jul	0.6%	--	1.4%	--
9/16	U. of Mich. Sentiment	Sep P	60.0	--	58.2	--
9/16	U. of Mich. Current Conditions	Sep P	--	--	58.6	--
9/16	U. of Mich. Expectations	Sep P	--	--	58.0	--
9/16	U. of Mich. 1 Yr Inflation	Sep P	--	--	4.8%	--
9/16	U. of Mich. 5-10 Yr Inflation	Sep P	--	--	2.9%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	9.2	14.6	15.7	17.2	16.8	19.8
FH/FN 15y	7.5	8.3	9.5	13.7	16.5	16.5
GN 15y	16.5	12.8	14.9	17.3	19.6	20.4
FH/FN 20y	52.7	7.8	9.7	10.8	12.2	13.7
FH/FN 30y	2.1	5.9	10.2	9.0	11.5	11.8
GN 30y	3.8	7.6	13.7	14.8	11.2	12.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	9.2	9.1	10.5	12.5	12.3	12.1
FH/FN 15y	7.3	7.0	7.7	8.6	13.8	14.8
GN 15y	10.2	9.0	9.6	12.8	13.8	14.6
FH/FN 20y	5.3	6.0	6.6	7.5	8.9	10.2
FH/FN 30y	6.0	5.9	6.3	6.9	7.8	10.2
GN 30y	6.4	6.4	8.3	8.5	10.4	11.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	142.52	2.32	135.05	115.83	109.72
Euro	1.00	0.01	1.02	1.11	1.18
Dollar Index	108.96	(0.58)	106.37	97.97	92.48
Major Stock Indices					
Dow Jones	32,045	389	32,774	33,286	34,879
S&P 500	4,053.3	86.5	4,122.5	4,277.9	4,493.3
NASDAQ	12,032.5	247	12,493.9	13,255.6	15,248.3
Commodities					
Gold	1,716.0	16.4	1,794.0	1,988.2	1,797.8
Crude Oil	85.93	(0.68)	90.50	108.70	68.14
Natural Gas	7.99	(1.27)	7.83	4.53	5.03
Wheat	810.0	34.5	781.5	1,199.5	681.5
Corn	681.5	23.3	615.5	735.0	496.0

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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Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, L.P. This report was printed as of: 09/09/2022 9:34AM