Baker Market Update

Week in Review

The Baker Group

November 18, 2022

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UPCOMING EVENTS

Banks

Seminar:
Minneapolis, MN
Nov 29, 2022

Webinar:
Q1 Conference Call
Jan 11, 2023

Credit Unions

CU Webinar:
Q1 Conference Call
Jan 12, 2023

CU Seminar:
Minneapolis, MN
Mar 21, 2023

The yield curve further inverted this week with the 2yr yield rising 14bp while the 10yr yield fell 2bp. The 10yr2yr spread has now fallen to -67bp, the most negative it has been since 1981 (see chart below). Federal Reserve officials continue to blanket the speaking circuit with the message that they will do whatever it takes to tackle inflation and that is pushing up short-term yields. On the other hand, longer-term yields are falling as muted inflation reports and weakening economic data support the belief that the economy may enter recession in 2023, which could bring down inflation faster than the Fed forecasts. Fed funds futures are now pricing in a 75% probability of a 50bp rate hike in December, which would be the smallest rate hike since May and could mark the beginning of the end for the most aggressive tightening cycle since 1981.

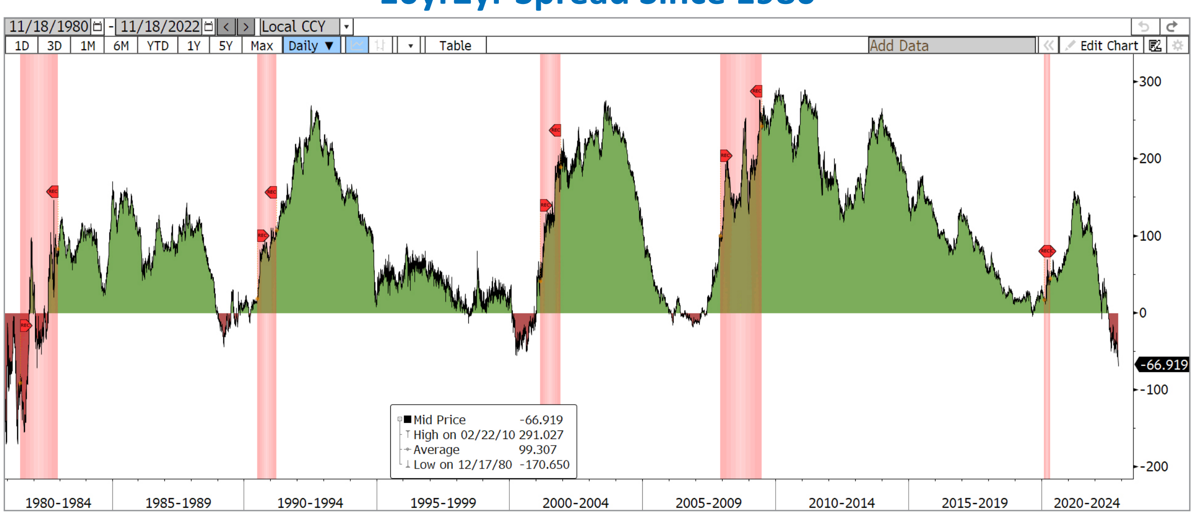
On the inflation front, producer prices rose a smaller than expected 0.2% in October and 8.0% from a year ago, a sharp drop from the 11.6% increase in March. The benign PPI report combined with last week's benign CPI report further reinforces the expectation that inflation has peaked and the Fed's significant rate hikes are having the desired effect. We'll get one more CPI report the day before the Fed's next FOMC meeting and that report could very well determine whether the Fed decides to slow their pace of rate hikes.

On the housing front, it was all bad news this week. The National Association of Home Builders Market Index fell for the 11th consecutive month in November to 33 (anything below 50 represents contraction), Housing Starts fell 4.2% in October, Building Permits were down 2.4% and Existing Home Sales fell for a record 9th consecutive month, down 5.9% in October and down 32% since January. The carnage in housing may take a breather in the months ahead as mortgage rates have fallen about 50bp in the last few weeks and that could boost sales in December and January.

On a positive note, Retail Sales for October rose a better than expected 1.3% and the Control Group (excludes certain categories and feeds into GDP) rose 0.7%, suggesting consumers continue to spend money in the face of higher inflation and a weakening economic outlook.

Next week we'll get reports on Durable Goods Orders, Jobless Claims, Manufacturing PMIs, New Home Sales and the November 2nd FOMC meeting minutes.

10yr2yr Spread Since 1980



Source: Bloomberg Finance L.P.

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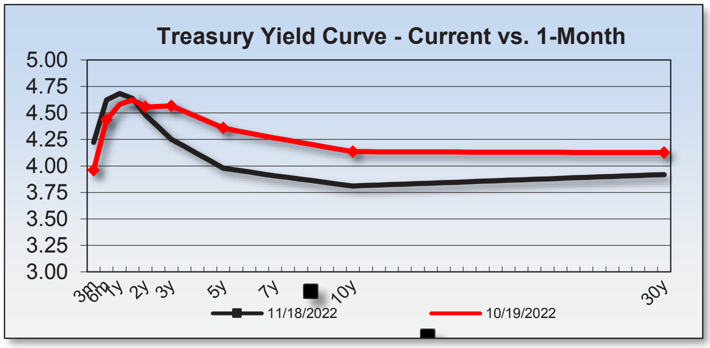

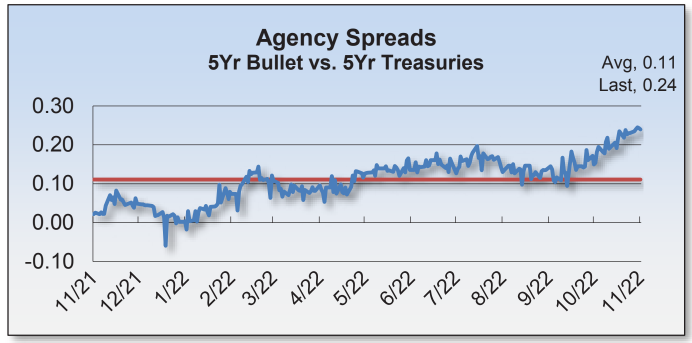

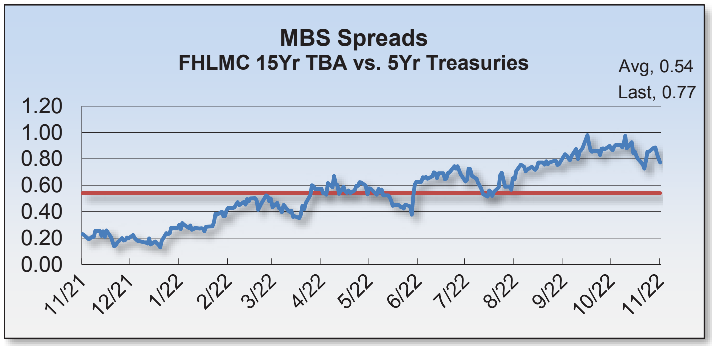

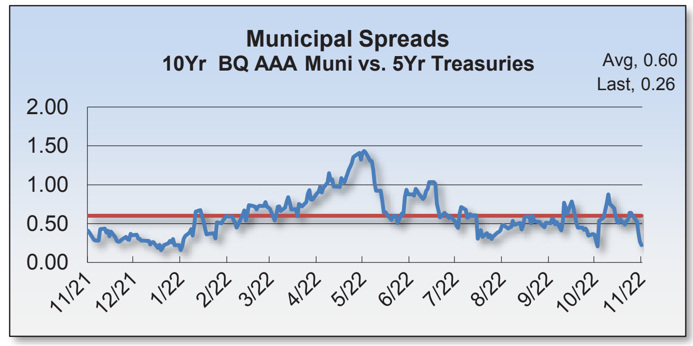

Treasury Market -- Historical

Maty	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
3mo	4.22	0.05	3.89	1.02	0.06
6mo	4.62	0.08	4.36	1.52	0.07
1yr	4.68	0.11	4.49	2.02	0.15
2yr	4.48	0.15	4.43	2.67	0.50
3yr	4.25	0.06	4.43	2.84	0.74
5yr	3.98	0.04	4.22	2.89	1.22
7yr	3.91	0.03	4.13	2.92	1.47
10yr	3.81	(0.00)	4.01	2.89	1.59
30yr	3.92	(0.10)	4.03	3.07	1.97

* *Interpolated*

Fixed Rate Market

Maty /AL	N-Call Agency	US Swap	AAA BQ Muni C-Corp[2]	S-Corp[3]	Tax Muni
2yr	4.61	4.80	3.85	4.10	4.67
3yr	4.35	4.41	3.88	4.13	4.63
5yr	4.01	4.03	3.93	4.19	4.56
7yr	4.19	3.88	3.98	4.23	4.64
10yr	4.02	3.80	4.07	4.34	4.80
15yr	3.85	3.79	4.54	4.83	4.99
20yr	3.67	3.73	4.73	5.04	5.18
25yr	3.50	3.60	4.88	5.19	5.24
30yr		3.48	5.03	5.35	5.29

Agency Calls - Euro

Mty	3Mo	6mo	1Yr	2Yr
2Yr	5.25	5.25	5.25	-
3Yr	5.02	5.02	5.00	5.01
5Yr	4.82	4.82	4.81	4.75
7Yr	4.75	4.77	4.76	4.70
10Yr	4.70	4.76	4.75	4.68

December TBA MBS

Cpn	15Yr -Yld	/AL	30Yr -Yld	/AL
2.50	4.75	5.7y	4.73	
3.00	4.91	5.8y		
3.50	4.76	5.7y	5.03	10.3y
4.00	4.73	5.5y	5.04	9.9y
4.50			5.11	9.0y
5.00			5.21	7.8y

Key Market Indices

Index	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
Fed Funds	**4.00**	--	3.25	1.00	0.25
Primary Discount	**4.00**	--	3.25	1.00	0.25
2ndary Discount	**4.50**	--	3.75	1.50	0.75
Prime Rate	**7.00**	--	6.25	4.00	3.25
Sec. O.N. Finance	**3.80**	0.02	3.05	0.80	--
1 Month LIBOR	**3.94**	0.07	3.48	0.93	0.09
3 Month LIBOR	**4.68**	0.03	4.23	1.45	0.16
6 Month LIBOR	**5.12**	(0.01)	4.67	2.01	0.23
1 Year LIBOR	**5.46**	(0.17)	5.31	2.68	0.40
6 Month CD	**4.91**	0.08	4.80	1.82	0.27
1 Year CMT	**4.68**	0.09	4.50	2.16	0.18
REPO O/N	**3.82**	--	3.06	0.79	0.04
REPO 1Wk	**3.89**	--	3.15	0.91	0.12
CoF Federal	**2.278**	--	2.022	0.963	0.749
11th D. CoF (Dec)	**0.223**	--	0.218	0.282	0.460

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Topeka
3mo	4.47	4.56	4.49
6mo	4.82	4.88	4.85
1yr	4.93	4.97	5.05
2yr	4.73	4.84	4.85
3yr	4.41	4.50	4.54
4yr	4.25	4.38	4.37
5yr	4.15	4.28	4.25
7yr	4.40	4.54	4.52
10yr	4.62	4.76	4.74
5yr Am	4.44		4.48
10yr Am	4.53		4.58

Fed Fund Futures

Maturity	Rate
Nov-22	3.780
Dec-22	4.135
Jan-23	4.375
Feb-23	4.725
Mar-23	4.795
Apr-23	4.925
May-23	5.005
Jun-23	5.015
Jul-23	5.005
Aug-23	4.960
Sep-23	4.930

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/15	Empire Manufacturing	Nov	-6.00	4.50	-9.10	--
11/15	PPI Final Demand YoY	Oct	8.3%	8.0%	~~8.5%~~	8.4%
11/15	PPI Ex Food and Energy YoY	Oct	7.2%	6.7%	~~7.2%~~	7.1%
11/15	PPI Ex Food, Energy, Trade YoY	Oct	5.6%	5.4%	5.6%	--
11/16	MBA Mortgage Applications	11/11	--	2.7%	-0.1%	--
11/16	Retail Sales Ex Auto MoM	Oct	0.5%	1.3%	0.1%	--
11/16	Retail Sales Ex Auto and Gas	Oct	0.2%	0.9%	~~0.3%~~	0.6%
11/16	Retail Sales Control Group	Oct	0.3%	0.7%	~~0.4%~~	0.6%
11/16	Import Price Index MoM	Oct	-0.4%	-0.2%	~~-1.2%~~	-1.1%
11/16	Import Price Index ex Petroleum MoM	Oct	-0.8%	-0.2%	~~-0.5%~~	-0.3%
11/16	Import Price Index YoY	Oct	4.1%	4.2%	6.0%	--
11/16	Export Price Index MoM	Oct	-0.3%	-0.3%	~~-0.8%~~	-1.5%
11/16	Export Price Index YoY	Oct	7.1%	6.9%	~~9.5%~~	9.2%
11/16	Industrial Production MoM	Oct	0.1%	-0.1%	~~0.4%~~	0.1%
11/16	Capacity Utilization	Oct	80.4%	79.9%	~~80.3%~~	80.1%
11/16	Manufacturing (SIC) Production	Oct	0.2%	0.1%	~~0.4%~~	0.2%
11/16	Business Inventories	Sep	0.5%	0.4%	~~0.8%~~	0.9%
11/16	NAHB Housing Market Index	Nov	36.0	33.0	38.0	--
11/16	Net Long-term TIC Flows	Sep	--	$118.0b	~~$197.9b~~	$198.3b
11/16	Total Net TIC Flows	Sep	--	$30.9b	~~$275.6b~~	$277.2b
11/17	Housing Starts	Oct	1410k	1425k	~~1439k~~	1488k
11/17	Building Permits	Oct	1514k	1526k	1564k	--
11/17	Housing Starts MoM	Oct	-2.0%	-4.2%	~~-8.1%~~	-1.3%
11/17	Building Permits MoM	Oct	-3.2%	-2.4%	1.4%	--
11/17	Philadelphia Fed Business Outlook	Nov	-6.0	-19.4	-8.7	--
11/17	Initial Jobless Claims	11/12	228k	222k	~~225k~~	226k
11/17	Continuing Claims	11/5	1510k	1507k	~~1493k~~	1494k
11/17	Kansas City Fed Manf. Activity	Nov	-8.0	-6.0	-7.0	--
11/18	Existing Home Sales	Oct	4.40m	4.43m	4.71m	--
11/18	Existing Home Sales MoM	Oct	-6.6%	-5.9%	-1.5%	--
11/18	Leading Index	Oct	-0.4%	-0.8%	~~-0.4%~~	-0.5%
11/21	Chicago Fed Nat Activity Index	Oct	0.0	--	0.1	--
11/22	Richmond Fed Manufact. Index	Nov	-9.0	--	-10.0	--
11/23	Durable Goods Orders	Oct P	0.4%	--	0.4%	--
11/23	Durables Ex Transportation	Oct P	0.1%	--	-0.5%	--
11/23	Cap Goods Orders Nondef Ex Air	Oct P	0.3%	--	-0.4%	--
11/23	Cap Goods Ship Nondef Ex Air	Oct P	0.3%	--	-0.5%	--
11/23	S&P Global US Manufacturing PMI	Nov P	50.0	--	50.4	--
11/23	S&P Global US Services PMI	Nov P	48.0	--	47.8	--
11/23	S&P Global US Composite PMI	Nov P	--	--	48.2	--
11/23	U. of Mich. Sentiment	Nov F	55.3	--	54.7	--
11/23	U. of Mich. Current Conditions	Nov F	57.8	--	57.8	--
11/23	U. of Mich. Expectations	Nov F	52.7	--	52.7	--
11/23	U. of Mich. 1 Yr Inflation	Nov F	--	--	0.1	--
11/23	U. of Mich. 5-10 Yr Inflation	Nov F	--	--	0.0	--
11/23	New Home Sales	Oct	570k	--	603k	--
11/23	New Home Sales MoM	Oct	-5.5%	--	-10.9%	--

MBS Prepayments[4]						
	3-Month CPR					
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	13.2	14.6	15.5	16.8	22.2	0.9
FH/FN 15y	7.4	7.8	11.3	15.9	19.0	27.5
GN 15y	13.4	14.0	15.3	18.4	18.8	22.1
FH/FN 20y	6.9	8.2	9.0	10.5	11.8	15.0
FH/FN 30y	4.6	7.5	7.1	7.6	10.1	10.7
GN 30y	6.0	9.4	13.4	10.3	10.3	9.8
	CPR Projections					
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	13.8	14.2	14.6	14.6	14.3	13.3
FH/FN 15y	7.8	7.8	8.2	13.0	14.8	18.4
GN 15y	7.9	8.1	8.5	9.2	10.2	10.7
FH/FN 20y	5.8	6.6	7.3	8.4	10.0	11.2
FH/FN 30y	5.7	5.9	6.1	7.0	8.5	10.5
GN 30y	5.8	7.2	7.3	7.9	10.3	9.9

Other Markets					
		1Wk	Historical		
Index	Current	Chng	1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	139.95	1.14	149.26	128.23	114.26
Euro	1.04	0.00	0.99	1.05	1.14
Dollar Index	106.65	0.36	112.13	103.81	95.54
Major Stock Indices					
Dow Jones	33,731	(17)	30,524	31,490	35,871
S&P 500	3,961.0	(31.9)	3,720.0	3,923.7	4,704.5
NASDAQ	11,143.2	(180)	10,772.4	11,418.2	15,993.7
Commodities					
Gold	1,758.7	(10.7)	1,655.8	1,815.9	1,861.4
Crude Oil	79.11	(9.85)	82.82	109.59	79.01
Natural Gas	6.38	0.50	5.75	8.37	4.90
Wheat	805.5	-8.3	849.5	1,230.8	820.0
Corn	669.8	11.8	681.0	781.5	573.0

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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