

Baker Market Update: Week in Review

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While stopping short of declaring an emergency, Federal Reserve Governor Lael Brainard disclosed yesterday that she favors putting an end to the central bank's process of balance sheet reduction sometime this year. The normalization exercise began in late 2017 and since that time, the combination of partial reinvestment cessation and carbohydrate reduction has trimmed the balance sheet down to a svelte \$4 trillion from its post-crisis peak of around \$4.5 trillion. Ever the cagey one, Ms Brainard nimbly sidestepped a question about the direction of the Fed's next rate move by saying that "We are in a good place today." A puzzling declaration to some since she was in Washington, D.C. at the time.

The nation's trade negotiators, however, have not been in Washington this week as they've been meeting with their Chinese counterparts in Beijing to see if the trade issues between the two nations can be resolved prior to the March 1st deadline for expected tariff increases on a broader spectrum of goods imported from China. The tone today is one of constructive optimism and global equity markets are feeling good for now. As we have seen, that condition is a capricious one, and bond prices are holding mostly steady with the Ten-Year's yield sitting on 2.66%.

While these vague variables play themselves out, the data remains immutable and, in the case of inflation, it remains muted. Investors learned on Monday that the Consumer Price Index was unchanged in January, but, measured year-over-year, fell by 0.3% to 1.6%. The "core" rate edged up by 0.2% for the month while its year-over-year pace remained unchanged at 2.2%. Some relatively good news from the Bureau of Labor Statistics showed that inflation-adjusted Real Average Hourly Earnings rose by 1.7% last month and that was up from December's increase of just 1.1%. Now, if those numbers mean that consumer inflation is muted, wholesale inflation is inaudible. Yesterday's report from the BLS disclosed that the Producer Price Index fell by 0.1% in January while its year-over-year rate plunged to 2% from 2.5%. The news at the "core" level was slightly better with a 0.3% January bump, but that couldn't stop the 0.1% year-over-year slip to 2.6%.

While none of this is lost on Ms Brainard and her fellow central bankers, the Fed's inflation attention will be focused on the Bureau of Economic Analysis' delayed report of its Personal Consumption Expenditures Index, now scheduled for release on March 1. Market estimates suggest that, to no one's surprise, inflationary pressures will continue to remain muted. Some may be starting to detect a pattern here. The day before that, though, the recently re-opened BEA will, at last, give its first "flash" estimate for Q4 GDP and those estimates are all over the place. The New York Fed's Nowcast model has its estimate at 2.4% while the BEA thinks 2.6% sounds about right for last year's quarter number four. The Atlanta Fed's GDPNow says that GDP then was just 1.5%. Hmm.

Whatever that number eventually turns out to be, now might be a good time to remind everyone that a sure-fire way for it to grow in the future is for people to buy more stuff. Yesterday's Retail Sales report from the Census Bureau was, unfortunately and unexpectedly, littered with minus signs. Overall volume slipped by 1.2% in December and without cars, the decline was an even greater 1.8%. Remember, the Census Bureau was caught up in the partial shutdown so this report was for December, as in Christmastime, not for January. One assumes that the self-proclaimed data-driven Fed is watching all this and will remind everyone that shipping is still free for Amazon Prime members; except for the ones in New York City.

For New York manufacturing, the Fed's Empire Manufacturing Index provided a bright spot with a greater-than-expected jump to 8.8 from 3.9. But, was that spot bright enough to push the University of Michigan's Index of Consumer Sentiment up to 95.5 from 91.2? Hard to say, but this morning's Wolverine report was just the preliminary version and will be revised in the next week or so. The report also contained a little nugget that policy-makers will not be happy about. The sub-index of 1- year inflationary expectations fell to 2.5% from 2.7%. If the Fed needs anecdotal evidence to support the empirical evidence of a disinflationary environment, there it is. If the monetarists at the central bank want more data, there's this from the BLS; the Import Price Index is down 1.7% year-over-year and a similar measure for Export Prices is down 0.2%. As Bob Dylan told us all, "You don't need a weatherman to know which way the wind blows." And, let's all hope that it's a fair wind that favors us on Monday when markets will be closed in observance of Presidents' Day. No emergencies, just a three-day weekend. Be careful out there.

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
02/12	NFIB Small Business Optimism	Jan	103.00	101.20	104.40	104.40
02/12	JOLTS Job Openings	Dec	6846.00	7335.00	6888.00	7166.00
02/13	MBA Mortgage Applications	2/8	--	-3.70%	-2.50%	--
02/13	CPI YoY	Jan	1.50%	1.60%	1.90%	--
02/13	CPI Ex Food and Energy YoY	Jan	2.10%	2.20%	2.20%	--
02/13	CPI Core Index SA	Jan	260.60	260.70	260.03	260.08
02/13	CPI Index NSA	Jan	251.63	251.71	251.23	--
02/13	Real Avg Weekly Earnings YoY	Jan	--	1.90%	1.20%	1.40%
02/13	Real Avg Hourly Earning YoY	Jan	--	1.70%	1.10%	1.30%
02/13	Monthly Budget Statement	Dec	-\$11.0b	-\$13.5b	-\$23.2b	--
02/14	PPI Final Demand YoY	Jan	2.10%	2.00%	2.50%	--
02/14	PPI Ex Food and Energy YoY	Jan	2.50%	2.60%	2.70%	--
02/14	PPI Ex Food, Energy, Trade YoY	Jan	2.70%	2.50%	2.80%	--
02/14	Initial Jobless Claims	2/9	225k	239k	234k	235k
02/14	Continuing Claims	2/2	1740k	1773k	1736k	--
02/14	Retail Sales Ex Auto and Gas	Dec	0.40%	-1.40%	0.50%	--
02/14	Retail Sales Control Group	Dec	0.40%	-1.70%	0.90%	1.00%
02/14	Bloomberg Consumer Comfort	2/10	--	60.00	58.20	--
02/14	Business Inventories	Nov	0.20%	-0.10%	0.60%	--
02/15	Empire Manufacturing	Feb	7.00	8.80	3.90	--
02/15	Import Price Index YoY	Jan	-1.60%	-1.70%	-0.60%	-0.50%
02/15	Export Price Index YoY	Jan	--	-0.20%	1.10%	--
02/15	Capacity Utilization	Jan	78.70%	78.20%	78.70%	78.80%
02/15	Manufacturing (SIC) Production	Jan	0.00%	-0.90%	1.10%	0.80%
02/15	Mortgage Delinquencies	4Q	--	4.06%	4.47%	--
02/15	MBA Mortgage Foreclosures	4Q	--	0.95%	0.99%	--
02/15	U. of Mich. Sentiment	Feb P	93.70	95.50	91.20	--
02/15	U. of Mich. Current Conditions	Feb P	111.60	110.00	108.80	--
02/15	U. of Mich. Expectations	Feb P	85.50	86.20	79.90	--
02/15	U. of Mich. 1 Yr Inflation	Feb P	--	2.50%	2.70%	--
02/15	U. of Mich. 5-10 Yr Inflation	Feb P	--	2.30%	2.60%	--
02/15	Net Long-term TIC Flows	Dec	--	--	\$37.6b	--
02/15	Total Net TIC Flows	Dec	--	--	\$31.0b	--
02/19	NAHB Housing Market Index	Feb	59.00	--	58.00	--
02/20	FOMC Meeting Minutes	1/30	--	--	--	--
02/21	Philadelphia Fed Business Outlook	Feb	15.50	--	17.00	--
02/21	Initial Jobless Claims	2/16	220k	--	239k	--
02/21	Continuing Claims	2/9	--	--	1773k	--
02/21	Durables Ex Transportation	Dec P	0.30%	--	-0.40%	--
02/21	Cap Goods Ship Nondef Ex Air	Dec P	0.10%	--	-0.20%	--
02/21	Bloomberg Consumer Comfort	2/17	--	--	60.00	--
02/21	Bloomberg Economic Expectations	Feb	--	--	44.50	--
02/21	Markit US Manufacturing PMI	Feb P	54.90	--	54.90	--
02/21	Markit US Services PMI	Feb P	--	--	54.20	--
02/21	Markit US Composite PMI	Feb P	--	--	54.40	--
02/21	Leading Index	Jan	0.20%	--	-0.10%	--
02/21	Existing Home Sales	Jan	5.00m	--	4.99m	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.5	11.6	13.4	14.2	15.5	35.1
FH/FN 15y	5.2	5.4	6.3	7.8	12.8	14.4
GN 15y	5.9	9.2	10.8	11.8	11.4	11.2
FH/FN 20y	--	4.9	6.0	6.8	7.5	8.8
FH/FN 30y	2.0	4.2	3.9	3.4	4.7	7.9
GN 30y	8.4	7.7	10.4	10.6	10.3	10.8
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.1	12.5	12.9	19.8	12.8	27.1
FH/FN 15y	7.7	7.7	8.1	10.7	12.4	21.0
GN 15y	6.0	10.3	13.0	14.4	13.1	13.1
FH/FN 20y	0.1	6.8	7.7	9.6	12.4	11.3
FH/FN 30y	5.1	5.6	6.4	7.4	11.6	12.3
GN 30y	7.9	6.8	8.8	11.0	14.3	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	110.43	0.70	108.68	110.74	106.13
Euro	1.13	(0.01)	1.14	1.13	1.25
Dollar Index	97.08	0.44	96.04	96.70	88.59
Major Stock Indices					
Dow Jones	25,745	639	24,066	25,162	25,200
S&P 500	2,767.9	60.0	2,610.3	2,818.4	2,731.2
NASDAQ	7,459.2	161	7,023.8	7,774.1	7,256.4
Commodities					
Gold	1,317.1	3.4	1,288.4	1,177.5	1,352.1
Crude Oil	55.26	2.54	52.11	65.01	61.34
Natural Gas	2.61	0.02	3.50	2.94	2.58
Wheat	503.8	-13.5	511.0	532.3	461.8
Corn	374.5	0.3	371.3	361.5	367.8

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (21% Fed, 0.5% CoF)	
3 S-Corp TEY Muni (29.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

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