

Baker Market Update: Week in Review

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Can a leopard change its spots? Ancient prophecy tells us no, but those ancient prophets didn't know Jerome Powell. As a participant in a panel discussion sponsored by the American Finance Association on January 9, 2017, Mr. Powell proclaimed "it is not the Fed's job to stop people from losing, or making, money." That was before he replaced Janet Yellen at the head of the big, shiny table and before violent market volatility reared its ugly head at the end of 2018. Readers of the recently released minutes of the FOMC's January meeting might reasonably conclude that, as Chairman, Mr. Powell has changed his tune; or rather, his spots.

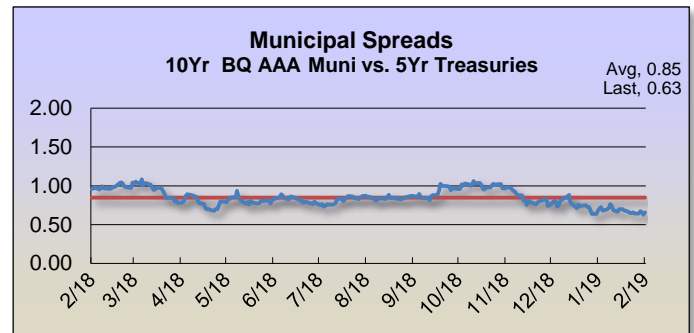
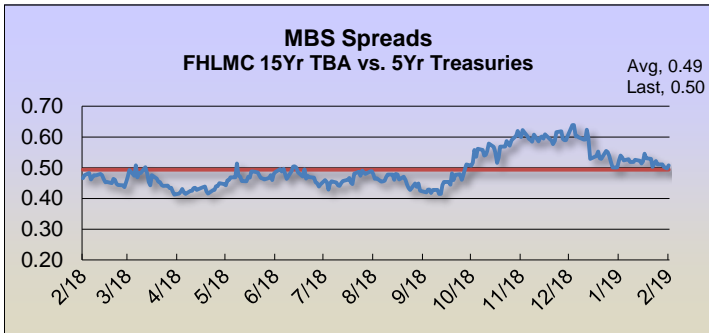
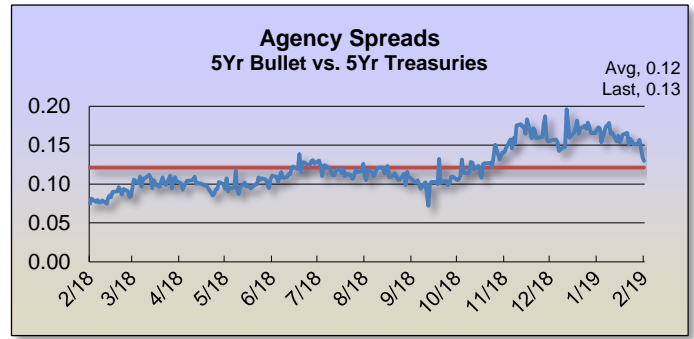
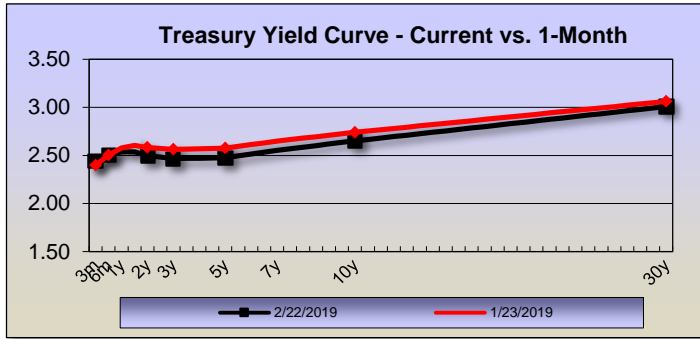
The tough love toward markets and their participants that previously characterized Chairman Powell's rhetoric has demonstrably shifted toward a startling sensitivity to the prices of financial assets and the degree to which those prices can be affected by monetary policy. Perhaps more startling is the sense that this is a revelation to the experienced central banker.

No revelations have yet been produced by this week's trade talks between China and the U.S., but all of those involved have agreed to be cautiously optimistic. That's nice. Whatever agreement or disagreement is ultimately reached, investors appear to be pricing in a favorable outcome. Or maybe they just like the kinder, gentler Jerome.

There was nothing kind or gentle about the Philadelphia Fed's announcement yesterday that its Business Outlook Survey Index took an absolute faceplant to negative 4.1 from a positive 17 when it was only supposed to slip slightly to 14. One would have to go back to the middle of 2016 to find that measure at a lower level. For the sale of Existing Homes, one would have to go back even further, to November 2015, to find their growth at a slower pace than what was reported this week by the National Association of Realtors. Nevertheless, a nugget of good news came the way of the housing sector when the National Association of Homebuilders reported on Tuesday that its Housing Market Index moved up more than expected to 62 from its previous 58. Okay, that's pretty much it for the good news.

Well, maybe not. It's bound to be good news that the Census Bureau is once again up and running, but still playing catch-up with its data publications. Just yesterday, it released a still-preliminary report showing a less-than-expected 1.2% rise in Durable Goods Orders that, without Transportation inputs, only rose 0.1%. Non-Defense Capital Goods Orders actually fell by 0.7% despite the suggestion of market surveys indicating a slight increase. The missing boom in capex spending is still missing. The expected gain in the Index of Leading Economic Indicators was likewise missing as the Conference Board reported its slippage to -0.1% from its previous value of 0.0. In other private data announcements, Markit Services reported its Manufacturing Index slipped to 53.7 from 54.9 while its Services Index improved a bit to 56.2 from 54.2.

In other Fed news, New York Fed President John Williams gave a speech in that same city yesterday and cautioned, somewhat curiously, that the central bank should not take for granted that consumers believe the Fed will continue to hit its inflation objective. His remarks reveal, perhaps unintentionally, the problem the FOMC seems to be having in formulating its policy. First of all, an objective has to be achieved before it can be maintained, and except for a brief moment last summer, the Fed's 2% inflation objective hasn't been seen since the first half of 2012. Also a little fuzzy is where Mr. Williams got the idea that consumers have ever held that belief. Investors, who are also consumers, certainly don't seem to believe it. Is there any comfort to be found in the minutes' revelation that "several participants had noted that the slope of the Treasury yield curve was unusually flat by historical standards"? Nice of them to notice; have their spots changed too? Have a great weekend; 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	2.44	0.02	2.40	2.08	1.64	2yr	2.55	2.61	2.24	2.38	17.00	2Yr	1.94	1.94	1.94	-
6mo	2.50	0.00	2.49	2.23	1.84	3yr	2.54	2.55	2.25	2.40	23.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.54	(0.00)	2.59	2.42	2.01	5yr	2.59	2.54	2.37	2.52	36.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.50	(0.02)	2.59	2.59	2.25	7yr	2.77	2.58	2.56	2.73	50.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.47	(0.02)	2.56	2.65	2.38	10yr	3.00	2.67	2.95	3.14	63.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.48	(0.02)	2.58	2.70	2.66	15yr	3.19	2.77	3.56	3.78	93.00	March TBA MBS				
7yr	2.55	(0.01)	2.65	2.77	2.84	20yr	3.38	2.81	3.96	4.22	84.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.65	(0.01)	2.74	2.82	2.92	25yr	3.57	2.82	4.09	4.35	87.50	2.00	2.95	4.8y		
30yr	3.01	0.02	3.06	2.98	3.21	30yr		2.82	4.21	4.48	91.00	2.50	2.87	5.1y		
												3.00	2.98	5.1y	3.26	9.4y
												3.50	3.07	4.9y	3.45	8.5y
												4.00			3.58	6.4y
												4.50			3.67	5.3y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.50	--	2.50	2.00	1.50
Primary Discount	3.00	--	3.00	2.50	2.00
2ndary Discount	3.50	--	3.50	3.00	2.50
Prime Rate	5.50	--	5.50	5.00	4.50
Sec. O.N. Finance	2.39	--	2.42	1.90	--
1 Month LIBOR	2.48	--	2.51	2.07	1.60
3 Month LIBOR	2.66	--	2.76	2.31	1.90
6 Month LIBOR	2.69	--	2.85	2.51	2.13
1 Year LIBOR	2.87	--	3.03	2.81	2.41
6 Month CD	2.65	--	2.83	2.49	2.17
1 Year CMT	2.55	0.02	2.60	2.45	2.03
REPO O/N	2.45	--	2.50	2.04	1.10
REPO 1Wk	2.44	--	2.44	1.98	1.51
CoF Federal	2.280	--	2.236	1.979	1.606
11th D. CoF (Dec)	1.056	--	1.060	0.934	0.753

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.61	2.71	2.75
6mo	2.66	2.71	2.78
1yr	2.72	2.75	2.86
2yr	2.69	2.86	2.91
3yr	2.68	2.87	2.92
4yr	2.70	2.91	2.94
5yr	2.74	2.95	2.98
7yr	2.97	3.22	3.15
10yr	3.20	3.47	3.37
5yr Am	2.72		2.95
10yr Am	3.01		3.23

Fed Fund Futures		
Maturity	Rate	
Feb-19	2.400	
Mar-19	2.405	
Apr-19	2.400	
May-19	2.395	
Jun-19	2.395	
Jul-19	2.390	
Aug-19	2.395	
Sep-19	2.390	
Oct-19	2.385	
Nov-19	2.385	
Dec-19	2.375	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
02/19	NAHB Housing Market Index	Feb	59.00	62.00	58.00	--
02/20	MBA Mortgage Applications	2/15	--	3.60%	-3.70%	-6.90%
02/20	FOMC Meeting Minutes	1/30	--	--	--	--
02/21	Philadelphia Fed Business Outlook	Feb	14.00	-4.10	17.00	--
02/21	Initial Jobless Claims	2/16	228k	216k	239k	--
02/21	Continuing Claims	2/9	1743k	1725k	1773k	1780k
02/21	Durables Ex Transportation	Dec P	0.30%	0.10%	-0.40%	-0.20%
02/21	Cap Goods Ship Nondef Ex Air	Dec P	0.00%	0.50%	-0.20%	--
02/21	Bloomberg Consumer Comfort	2/17	--	59.60	60.00	--
02/21	Bloomberg Economic Expectations	Feb	--	54.50	44.50	--
02/21	Markit US Manufacturing PMI	Feb P	54.80	53.70	54.90	--
02/21	Markit US Services PMI	Feb P	54.30	56.20	54.20	--
02/21	Markit US Composite PMI	Feb P	--	55.80	54.40	--
02/21	Leading Index	Jan	0.10%	-0.10%	-0.10%	0.00%
02/21	Existing Home Sales	Jan	5.00m	4.94m	4.99m	5.00m
02/25	Chicago Fed Nat Activity Index	Jan	--	--	27.00%	--
02/25	Wholesale Inventories MoM	Dec P	0.40%	--	0.30%	--
02/25	Wholesale Trade Sales MoM	Dec	--	--	-0.60%	--
02/26	Housing Starts	Dec	1253k	--	1256k	--
02/26	Building Permits	Dec	1290k	--	1328k	1322k
02/26	House Price Purchase Index QoQ	4Q	--	--	1.30%	--
02/26	FHFA House Price Index MoM	Dec	0.50%	--	0.40%	--
02/26	S&P CoreLogic CS 20-City YoY NSA	Dec	4.55%	--	4.68%	--
02/26	S&P CoreLogic CS US HPI YoY NSA	Dec	--	--	5.19%	--
02/26	Conf. Board Consumer Confidence	Feb	124.20	--	120.20	--
02/26	Conf. Board Present Situation	Feb	--	--	169.60	--
02/26	Conf. Board Expectations	Feb	--	--	87.30	--
02/27	Advance Goods Trade Balance	Dec	-\$74.8b	--	--	--
02/27	Pending Home Sales NSA YoY	Jan	--	--	-9.50%	--
02/27	Factory Orders Ex Trans	Dec	--	--	-1.30%	--
02/28	GDP Annualized QoQ	4Q A	2.50%	--	3.40%	--
02/28	Personal Consumption	4Q A	3.70%	--	3.50%	--
02/28	GDP Price Index	4Q A	1.70%	--	1.80%	--
02/28	Core PCE QoQ	4Q A	1.60%	--	1.60%	--
02/28	Chicago Purchasing Manager	Feb	58.00	--	56.70	--
03/01	Personal Income	Jan	0.30%	--	--	--
03/01	Real Personal Spending	Dec	0.20%	--	0.30%	--
03/01	PCE Deflator YoY	Dec	1.70%	--	1.80%	--
03/01	PCE Core YoY	Dec	1.90%	--	1.90%	--
03/01	ISM Manufacturing	Feb	56.00	--	56.60	--
03/01	ISM Employment	Feb	--	--	55.50	--
03/01	ISM Prices Paid	Feb	52.00	--	49.60	--
03/01	ISM New Orders	Feb	--	--	58.20	--
03/01	U. of Mich. Sentiment	Feb F	95.90	--	95.50	--
03/01	U. of Mich. Current Conditions	Feb F	--	--	110.00	--
03/01	U. of Mich. 1 Yr Inflation	Feb F	--	--	2.50%	--
03/01	Wards Total Vehicle Sales	Feb	16.80m	--	16.60m	--

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	12.7	27.0
FH/FN 15y	7.7	7.7	8.9	10.5	12.6	21.0
GN 15y	6.0	10.2	13.7	14.9	13.2	13.2
FH/FN 20y	0.1	6.9	7.7	10.4	13.8	11.3
FH/FN 30y	5.1	5.6	6.3	7.8	12.0	14.7
GN 30y	7.9	6.8	9.4	11.5	14.3	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	110.70	0.23	109.37	110.56	106.75
Euro	1.13	0.01	1.14	1.16	1.23
Dollar Index	96.51	(0.39)	96.30	95.15	89.74
Major Stock Indices					
Dow Jones	25,985	545	24,404	25,734	24,962
S&P 500	2,784.4	38.6	2,632.9	2,861.8	2,704.0
NASDAQ	7,504.2	77	7,020.4	7,889.1	7,210.1
Commodities					
Gold	1,321.0	11.2	1,283.4	1,196.3	1,330.6
Crude Oil	57.35	2.94	52.57	67.86	62.77
Natural Gas	2.69	0.12	3.04	2.96	2.63
Wheat	486.0	-21.0	521.3	526.0	451.3
Corn	375.3	0.5	379.0	352.5	366.8

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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