

Baker Market Update: Week in Review

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Patience young grasshopper. That was the theme this week as Jerome Powell channeled his inner Caine to deliver his semi-annual testimony to Congress. Citing challenges to domestic and global growth, the Chairman used his even-tempered equanimity to assure and reassure lawmakers and investors that the central bank will be able to exercise its forbearance with aplomb while making adjustments to future policy. In a speech last night to the Citizens Budget Commission in New York City, he also said that “the economy is in a good place.”

At the very least, we all learned yesterday that in last year’s fourth quarter, it was in a better place than many had previously thought. The long delayed and much anticipated report from the temporarily shut-down Bureau of Economic Analysis (BEA) came out on Thursday and showed that the economy grew at an annualized pace of 2.6% in Q4. Mainstream estimates weren’t looking for much over 2%. That was pretty good news. We also learned that during the same three months, core PCE inflation only grew by 1.7%. That’s pretty bad news. The disappointing, quarterly read on inflation was perhaps assuaged somewhat by this morning’s delayed report showing that, for the month of December, that measure rose by 0.2%. And, if one rounds up, the year-over-year rate remained unchanged at 1.9% and in doing so, the BEA bolstered another part of Mr. Powell’s mantra: inflationary pressures are muted.

But, the mutedness doesn’t just apply to inflation. We learned from the Chicago Fed on Monday that it’s National Activity Index, a measure of business vitality across the nation, dropped into negative territory with a reading of -.43. That was very muted and very unexpected. The Dallas Fed told us a different story with a surge in its Manufacturing Index to 13.1 from just 1.0. That was also unexpected, but definitely not muted. That’s how they’re rollin’ these days in the Lone Star State.

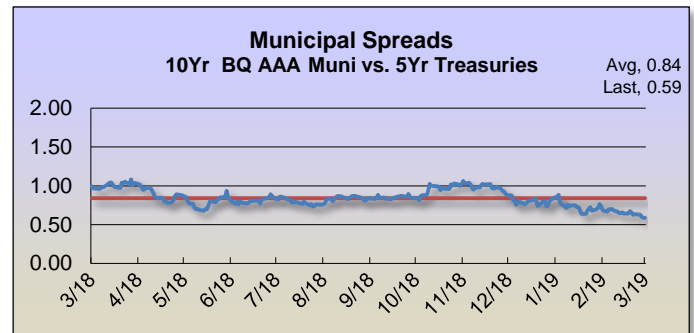
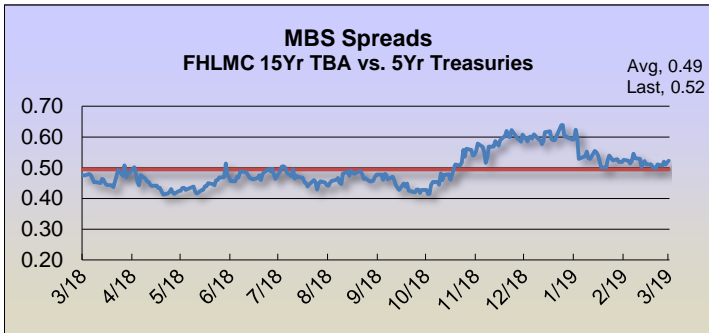
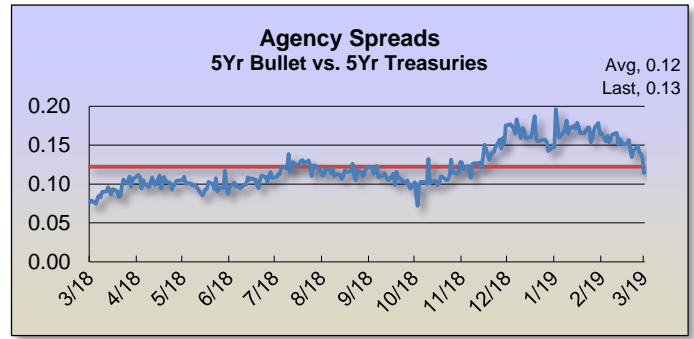
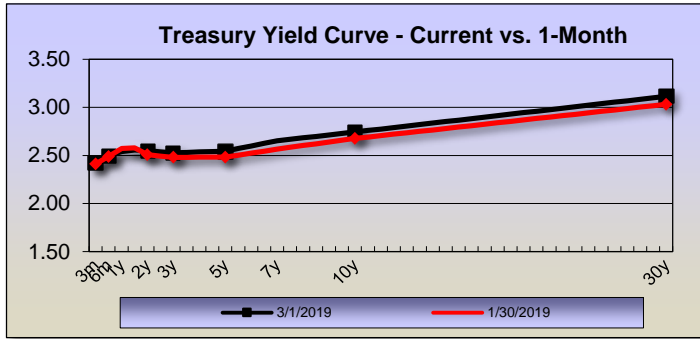
Housing Starts, unfortunately, have not enjoyed a similar surge and we learned on Tuesday from the Census Bureau that they fell by 11.2% in December. But hey, who starts building a new house in December, anyway? It’s cold outside! And, according to the Case-Shiller 20 City Home Price Index, the pace of price increases has cooled somewhat as it inched up by 0.19% in December, or about half of what was expected. Year-over-year, that comes to 4.18% against an expected 4 ½ %. The Richmond Fed warmed things up with another red-hot report for manufacturing. Its measure of such things rocketed to a February reading of 16 after January’s contractionary slide to -2. More good news for those folks south of the Mason-Dixon line.

That must be who the Conference Board surveyed when they published their new report for Consumer Confidence. That measure soared to 131.4 from 121.7 when it was only expected to move to 124.9. It had been declining since reaching a cyclical peak of 137.9 back in October. Perhaps even more surprising was the move made in the “Expectations” sub-index. That measure made a Texas-sized comeback to 103.4 from its disappointing January value of 89.4. We learned today that the good folks at the University of Michigan must have surveyed a different set of consumers. It’s Wolverine Index of Consumer Sentiment fell to 93.8 from 95.5 when it was supposed to experience a slight upward move. And in another counter-move to the Conference Board, the “Expectations” component slipped to 84.4 from 86.2. Maybe those consumers didn’t see the Chicago Purchasing Managers Index soar to 64.7 from 56.7. Or, more worrisome, maybe they did.

Meanwhile, the nation’s trade imbalance became more lopsided with a backward jump to -\$79.5B from -\$70.5B. For Factory Orders, December wasn’t quite a jump, but they did move up by 0.1%. A disappointing result against the expectation of a 0.6% rise. If greater disappointment is sought, it can be found by taking Transportation inputs out of the tally and then the measure falls by 0.6%. In a related measurement, Durable Goods Orders rose by 1.2%.

There was no rise in January’s Personal Income, though, and if any persons came up a little short that month it’s because your income fell by 0.1%. The BEA won’t share January’s Personal Spending with us just yet, but we learned this morning that December’s level fell by 0.5%. That can’t be good. Likewise with the Institute of Supply Management’s (ISM) Manufacturing Index. That slipped to 54.2 from 56.6 when it was supposed to go to 55.8. Happily, it remains in expansionary territory and that’s more than its Chinese counterpart can say.

For the week, credit markets have spoken up by pushing the Ten-Year Treasury’s yield up about ten basis points to 2.74%. They should be listening to Jerome; don’t be a Fu-fighter. 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	2.43	(0.02)	2.39	2.10	1.62	2yr	2.58	2.62	2.21	2.35	14.00	2Yr	1.94	1.94	1.94	-
6mo	2.50	(0.01)	2.46	2.27	1.84	3yr	2.57	2.58	2.23	2.37	20.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.54	0.00	2.56	2.45	2.04	5yr	2.64	2.58	2.34	2.49	33.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.55	0.05	2.50	2.63	2.21	7yr	2.85	2.64	2.53	2.70	47.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.53	0.06	2.49	2.69	2.34	10yr	3.08	2.74	2.94	3.13	61.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.54	0.07	2.50	2.74	2.58	15yr	3.27	2.85	3.51	3.74	90.00	April TBA MBS				
7yr	2.65	0.10	2.58	2.81	2.73	20yr	3.45	2.89	3.93	4.19	81.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.74	0.09	2.69	2.86	2.81	25yr	3.63	2.90	4.05	4.31	85.00	2.00	3.07	4.8y		
30yr	3.12	0.10	3.03	3.02	3.08	30yr		2.90	4.17	4.44	89.00	2.50	2.92	5.1y		
												3.00	3.03	5.1y	3.33	9.4y
												3.50	3.11	4.9y	3.50	8.4y
												4.00			3.62	6.4y
												4.50			3.71	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	2.58	0.19	2.39	1.95	--
1 Month LIBOR	2.49	--	2.50	2.07	1.66
3 Month LIBOR	2.63	--	2.75	2.32	2.01
6 Month LIBOR	2.69	--	2.83	2.52	2.21
1 Year LIBOR	2.87	--	3.03	2.82	2.48
6 Month CD	2.65	--	2.78	2.50	2.22
1 Year CMT	2.54	--	2.60	2.47	2.07
REPO O/N	2.44	0.02	2.52	2.02	1.69
REPO 1Wk	2.44	--	2.44	1.98	1.52
CoF Federal	2.280	--	2.236	1.979	1.606
11th D. CoF (Jan)	1.125	--	1.056	1.018	0.777

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.62	2.70	2.75
6mo	2.65	2.71	2.79
1yr	2.73	2.76	2.86
2yr	2.71	2.88	2.91
3yr	2.70	2.89	2.91
4yr	2.74	2.94	2.95
5yr	2.79	3.00	2.98
7yr	3.04	3.29	3.16
10yr	3.27	3.54	3.39
5yr Am	2.76		2.95
10yr Am	3.07		3.24

Fed Fund Futures		
Maturity	Rate	
Mar-19	2.403	
Mar-19	2.403	
May-19	2.405	
May-19	2.405	
Jul-19	2.405	
Jul-19	2.405	
Aug-19	2.410	
Sep-19	2.410	
Oct-19	2.410	
Nov-19	2.410	
Dec-19	2.410	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
02/26	Housing Starts	Dec	1256k	1078k	1256k	1214k
02/26	Building Permits	Dec	1290k	1326k	1328k	1322k
02/26	House Price Purchase Index QoQ	4Q	--	1.10%	1.30%	--
02/26	FHFA House Price Index MoM	Dec	0.40%	0.30%	0.40%	--
02/26	S&P CoreLogic CS 20-City YoY NSA	Dec	4.50%	4.18%	4.68%	4.58%
02/26	S&P CoreLogic CS US HPI YoY NSA	Dec	--	4.72%	5.19%	5.09%
02/26	Conf. Board Consumer Confidence	Feb	124.90	131.40	120.20	121.70
02/26	Conf. Board Present Situation	Feb	--	173.50	169.60	170.20
02/26	Conf. Board Expectations	Feb	--	103.40	87.30	89.40
02/27	MBA Mortgage Applications	2/22	--	5.30%	3.60%	--
02/27	Advance Goods Trade Balance	Dec	-\$73.6b	-\$79.5b	-\$70.5b	--
02/27	Pending Home Sales NSA YoY	Jan	-4.60%	-3.20%	-9.50%	--
02/27	Factory Orders Ex Trans	Dec	--	-0.60%	-1.30%	--
02/27	Durables Ex Transportation	Dec F	--	0.10%	0.10%	--
02/27	Cap Goods Ship Nondef Ex Air	Dec F	--	0.00%	0.50%	--
02/28	Initial Jobless Claims	2/23	220k	225k	216k	217k
02/28	Continuing Claims	2/16	1737k	1805k	1725k	1726k
02/28	Personal Consumption	4Q A	3.00%	2.80%	3.50%	--
02/28	GDP Price Index	4Q A	1.70%	1.80%	1.80%	--
02/28	Core PCE QoQ	4Q A	1.60%	1.70%	1.60%	--
03/01	Personal Income	Jan	0.30%	-0.10%	--	1.00%
03/01	Real Personal Spending	Dec	-0.30%	-0.60%	0.30%	0.50%
03/01	PCE Deflator YoY	Dec	1.70%	1.70%	1.80%	--
03/01	PCE Core YoY	Dec	1.90%	1.90%	1.90%	--
03/01	Markit US Manufacturing PMI	Feb F	53.70	53.00	53.70	--
03/01	ISM Manufacturing	Feb	55.80	54.20	56.60	--
03/01	ISM Employment	Feb	--	52.30	55.50	--
03/01	ISM Prices Paid	Feb	51.80	49.40	49.60	--
03/01	ISM New Orders	Feb	--	55.50	58.20	--
03/01	U. of Mich. Sentiment	Feb F	95.90	93.80	95.50	--
03/01	U. of Mich. Current Conditions	Feb F	--	108.50	110.00	--
03/01	U. of Mich. 1 Yr Inflation	Feb F	--	2.60%	2.50%	--
03/05	Markit US Composite PMI	Feb F	--	--	55.80	--
03/05	ISM Non-Manufacturing Index	Feb	57.30	--	56.70	--
03/06	ADP Employment Change	Feb	190k	--	213k	--
03/07	Challenger Job Cuts YoY	Feb	--	--	18.70%	--
03/07	Nonfarm Productivity	4Q F	1.70%	--	2.30%	2.20%
03/07	Unit Labor Costs	4Q F	1.80%	--	0.90%	--
03/07	Consumer Credit	Jan	\$16.750b	--	\$16.554b	--
03/08	Change in Nonfarm Payrolls	Feb	188k	--	304k	--
03/08	Change in Private Payrolls	Feb	165k	--	296k	--
03/08	Change in Manufact. Payrolls	Feb	10k	--	13k	--
03/08	Unemployment Rate	Feb	3.90%	--	4.00%	--
03/08	Average Hourly Earnings YoY	Feb	3.30%	--	3.20%	--
03/08	Average Weekly Hours All Employees	Feb	34.50	--	34.50	--
03/08	Labor Force Participation Rate	Feb	--	--	63.20%	--
03/08	Underemployment Rate	Feb	--	--	8.10%	--

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	19.7	12.5	17.3
FH/FN 15y	7.7	7.7	8.9	10.3	12.6	21.0
GN 15y	6.0	10.2	13.0	14.3	13.1	13.0
FH/FN 20y	0.1	6.8	7.6	10.3	13.5	11.2
FH/FN 30y	5.1	5.6	6.3	7.8	11.8	14.6
GN 30y	7.9	6.7	9.4	11.3	14.3	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.68	0.99	109.50	111.07	106.24
Euro	1.14	0.01	1.15	1.16	1.23
Dollar Index	96.18	(0.33)	95.58	95.14	90.32
Major Stock Indices					
Dow Jones	25,998	(34)	25,064	25,965	24,609
S&P 500	2,803.8	11.1	2,706.5	2,901.5	2,677.7
NASDAQ	7,556.9	29	7,263.9	8,109.5	7,180.6
Commodities					
Gold	1,310.7	(18.5)	1,316.9	1,201.6	1,305.2
Crude Oil	57.30	0.04	55.26	69.80	60.99
Natural Gas	2.83	0.11	2.73	2.92	2.70
Wheat	449.5	-37.3	524.3	518.5	505.5
Corn	361.0	-14.3	378.3	351.0	378.8

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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