

## Baker Market Update: Week in Review

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Serious anglophiles might recall an observation once made by two-time Prime Minister Benjamin Disraeli. The eclectic, nineteenth-century statesman and novelist noted “There are three kinds of lies: lies, damned lies, and statistics.” And since the iconic Londoner passed away in 1880, he *couldn't* have been talking about this morning's Jobs Report; or could he?

The Bureau of Labor Statistics (BLS) reported today that the Unemployment Rate fell last month to 3.8% from 4.0%. Wow! That's hard to do in just one month; must have been a lot of new jobs created. Not really. The 20k gain in Non-Farm Payrolls was a woeful disappointment for those-in-the-know looking for an increase of 180k. Also disappointed are the 428k Discouraged Workers the BLS tallied in February. A tally of the Civilian Labor Force would result in 45k fewer civilian laborers than last month but also a 300k decline in the number of Unemployed Persons.

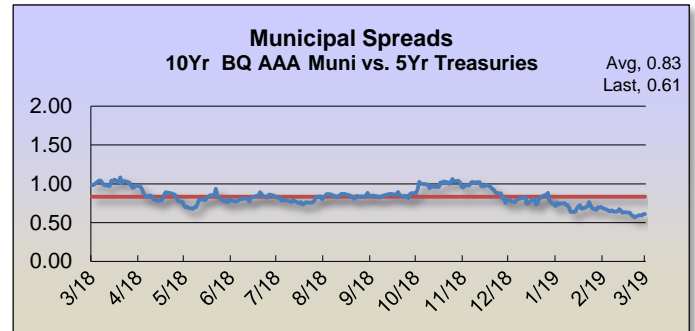
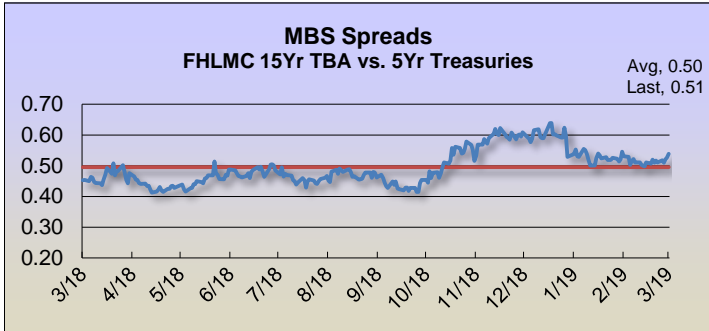
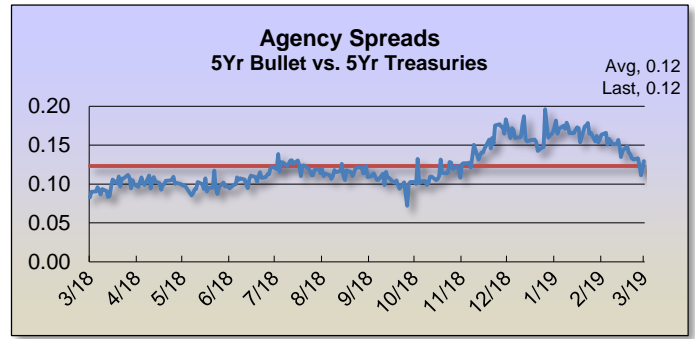
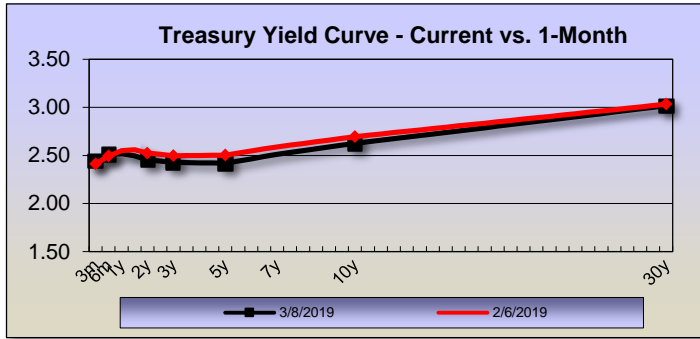
How can that be if only 20k new jobs were created? Well, according to the BLS, there's more than one way to lose one's status as an “unemployed person.” The preferred way is to get a job, but even if you don't, giving up on looking for one will also allow you to shed the “unemployed” label. The problem with the latter method is that you still don't have a job, you're just no longer unemployed. Feel better? Well, even if you don't, the BLS has a statistical “out”; the Non-Farm Payroll data is derived from the Establishment Survey while the provenance of the Labor Force data is the Household Survey. That helps make sure that *nobody* is on the same page while apples freely co-mingle with oranges.

The many pages of the Fed's Beige Book were published on Wednesday, and their content was as uninspiring as their color. The realization of current disquiet and recognition of future dismay was right there in banal, bureaucratic black-and-white. Again. And the nation's trade imbalance was again in the news when the Census Bureau reported this week that the American export/import deficit grew by a higher-than-expected \$60B in December, bringing that measure up to \$621B; a level not seen since 2008. Better news came yesterday when the BLS, warming up for today's big jobs report, told us that in last year's fourth quarter, Non-Farm Productivity grew by 1.9%; a half-per-cent better than expected. And that's great, as long as one doesn't have to eat anything produced by a non-farmer. But if you do, it might cost more; the same report also disclosed that Unit Labor Costs shot up by 2% for the same period. A different but related measure, Average Hourly Earnings, rose by 3.4% on a year-over-year basis according to today's BLS report, and that's a little better than expected. But, the number of weekly hours fell slightly, and that wasn't. Treasury yields have also fallen slightly with the Ten-Year's yield in the low 2.60%'s.

The fortunes of the European Union also made news this week, but the news wasn't particularly good. Those trend-setters at the European Central Bank may have begun a new one with the reconstitution of monetary accommodation after some serious downgrades to the year's growth forecasts. A pretty quick reversal of fortune after the ECB's cessation of Quantitative Easing just 90 days ago. Look for those skinny suits to be going on sale. Adding to the EU's economic challenges is the fast-approaching deadline for the United Kingdom's departure from the European Union. Yet another vote in Parliament is scheduled for next week. Like many divorces, it's not always obvious who wins and who loses, but it's obvious to all that they're expensive. Somehow, the issue of customs-free passage between Ireland and Northern Ireland has become a sticking point. Sir Paul McCartney proposed a solution way back in 1972; give Ireland back to the Irish. An unlikely outcome, but one can hope.

For 621k families hoping for a New Home, their wish came true in December, but new Mortgage Applications slipped by 2.5% for the week. Construction Spending also slipped by 0.6% in December, but the Institute of Supply Management (ISM) reported its non-Manufacturing Index outperformed expectations with its climb to 59.7 from 56.7. Thank you for your services.

The services of our central bankers are also appreciated and for those looking to divine their intentions, New York Fed President John Williams gave a speech this week to the Economic Club of New York City. Included in his remarks was the following: “My current estimate for  $r^*$  (real neutral interest rate) is 0.5%, so when you adjust for inflation that's near 2%, the current fed funds rate of 2.40% puts us right at neutral.” One wonders what description Mr. Disraeli might assign to that statement? 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.44	0.01	2.42	2.13	1.66	2yr	2.49	2.59	2.21	2.35	14.00	2Yr	1.94	1.94	1.94	-
6mo	2.51	0.00	2.49	2.30	1.87	3yr	2.49	2.53	2.23	2.37	19.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.52	(0.03)	2.53	2.51	2.04	5yr	2.53	2.51	2.34	2.49	31.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.45	(0.10)	2.47	2.70	2.25	7yr	2.72	2.56	2.55	2.71	47.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.43	(0.11)	2.44	2.77	2.38	10yr	2.96	2.66	2.91	3.10	61.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.42	(0.14)	2.45	2.82	2.63	15yr	3.14	2.78	3.46	3.68	90.00	April TBA MBS				
7yr	2.51	(0.15)	2.53	2.89	2.78	20yr	3.32	2.82	3.85	4.10	81.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.62	(0.13)	2.64	2.94	2.86	25yr	3.50	2.83	3.97	4.22	85.00	2.00	2.87	4.8y		
30yr	3.02	(0.11)	2.98	3.10	3.12	30yr	3.50	2.84	4.09	4.35	89.00	2.50	2.84	5.1y		
												3.00	2.96	5.1y	3.24	9.3y
												3.50	3.05	4.7y	3.42	8.1y
												4.00			3.54	6.1y
												4.50			3.65	5.2y

\* 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	2.38	(0.20)	2.38	1.94	--
1 Month LIBOR	2.49	--	2.51	2.13	1.71
3 Month LIBOR	2.59	--	2.74	2.33	2.05
6 Month LIBOR	2.69	--	2.78	2.54	2.24
1 Year LIBOR	2.89	0.02	2.96	2.85	2.51
6 Month CD	2.66	0.01	2.72	2.52	2.25
1 Year CMT	2.52	--	2.55	2.53	2.05
REPO O/N	2.46	--	2.45	2.02	1.52
REPO 1Wk	2.44	--	2.44	1.98	1.51
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	2.61	2.70	2.74
6mo	2.65	2.70	2.78
1yr	2.68	2.71	2.84
2yr	2.63	2.80	2.85
3yr	2.60	2.79	2.83
4yr	2.63	2.84	2.86
5yr	2.65	2.87	2.88
7yr	2.92	3.16	3.06
10yr	3.16	3.44	3.31
5yr Am	2.65		2.87
10yr Am	2.95		3.16

Fed Fund Futures		
Maturity	Rate	
Mar-19	2.400	
Apr-19	2.400	
May-19	2.395	
Jun-19	2.395	
Jul-19	2.390	
Aug-19	2.390	
Sep-19	2.390	
Oct-19	2.380	
Nov-19	2.375	
Dec-19	2.360	
Jan-20	2.345	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
03/05	Markit US Services PMI	Feb F	56.20	56.00	56.20	--
03/05	Markit US Composite PMI	Feb F	--	55.50	55.80	--
03/05	ISM Non-Manufacturing Index	Feb	57.40	59.70	56.70	--
03/05	New Home Sales	Dec	600k	621k	657k	599k
03/05	Monthly Budget Statement	Jan	\$10.0b	\$8.7b	\$49.2b	--
03/06	MBA Mortgage Applications	3/1	--	-2.50%	5.30%	--
03/06	ADP Employment Change	Feb	190k	183k	213k	300k
03/06	Trade Balance	Dec	-\$57.9b	-\$59.8b	-\$49.3b	-\$50.3b
03/07	Challenger Job Cuts YoY	Feb	--	117.20%	18.70%	--
03/07	Initial Jobless Claims	3/2	225k	223k	225k	226k
03/07	Continuing Claims	2/23	1772k	1755k	1805k	--
03/07	Nonfarm Productivity	4Q	1.50%	1.90%	2.30%	1.80%
03/07	Unit Labor Costs	4Q	1.70%	2.00%	0.90%	1.60%
03/07	Bloomberg Consumer Comfort	3/3	--	62.10	61.00	--
03/07	Household Change in Net Worth	4Q	--	-\$3730b	\$2070b	\$1833b
03/07	Consumer Credit	Jan	\$17.000b	\$17.049b	\$16.554b	\$15.363b
03/08	Housing Starts	Jan	1195k	1230k	1078k	1037k
03/08	Building Permits	Jan	1287k	1345k	1326k	--
03/08	Change in Nonfarm Payrolls	Feb	180k	20k	304k	311k
03/08	Two-Month Payroll Net Revision	Feb	--	12k	--	--
03/08	Change in Private Payrolls	Feb	170k	25k	296k	308k
03/08	Change in Manufact. Payrolls	Feb	12k	4k	43k	21k
03/08	Unemployment Rate	Feb	3.90%	3.80%	4.00%	--
03/08	Average Hourly Earnings YoY	Feb	3.30%	3.40%	3.20%	3.10%
03/08	Average Weekly Hours All Employees	Feb	34.50	34.40	34.50	--
03/08	Labor Force Participation Rate	Feb	63.20%	63.20%	63.20%	--
03/08	Underemployment Rate	Feb	--	7.30%	8.10%	--
03/11	Retail Sales Ex Auto and Gas	Jan	0.60%	--	-1.40%	--
03/11	Retail Sales Control Group	Jan	0.60%	--	-1.70%	--
03/11	Business Inventories	Dec	0.60%	--	-0.10%	--
03/12	NFIB Small Business Optimism	Feb	102.50	--	101.20	--
03/12	CPI YoY	Feb	1.60%	--	1.60%	--
03/12	CPI Ex Food and Energy YoY	Feb	2.20%	--	2.20%	--
03/12	CPI Core Index SA	Feb	--	--	260.70	--
03/12	CPI Index NSA	Feb	252.85	--	251.71	--
03/12	Real Avg Weekly Earnings YoY	Feb	--	--	1.90%	--
03/12	Real Avg Hourly Earning YoY	Feb	--	--	4.70%	1.60%
03/13	PPI Final Demand YoY	Feb	1.90%	--	2.00%	--
03/13	PPI Ex Food and Energy YoY	Feb	2.60%	--	2.60%	--
03/13	PPI Ex Food, Energy, Trade YoY	Feb	--	--	2.50%	--
03/13	Durables Ex Transportation	Jan P	0.30%	--	--	--
03/13	Cap Goods Ship Nondef Ex Air	Jan P	--	--	--	--
03/14	Import Price Index YoY	Feb	--	--	-1.70%	--
03/14	Export Price Index YoY	Feb	--	--	-0.20%	--
03/15	Empire Manufacturing	Mar	10.00	--	8.80	--
03/15	Manufacturing (SIC) Production	Feb	0.50%	--	-0.90%	--
03/15	JOLTS Job Openings	Jan	--	--	7335.00	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.9	11.6	13.2	14.0	14.9	33.4
FH/FN 15y	5.2	5.5	6.6	8.5	12.6	14.3
GN 15y	7.2	9.5	10.8	11.0	11.5	11.3
FH/FN 20y		4.7	5.7	6.6	7.5	8.7
FH/FN 30y	4.0	3.8	3.8	3.8	5.9	9.7
GN 30y	8.2	7.6	10.7	9.9	9.5	10.1

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.7	12.5	12.9	19.8	12.6	17.3
FH/FN 15y	7.7	7.7	9.2	10.9	12.5	21.0
GN 15y	6.8	10.3	12.6	14.2	13.1	12.9
FH/FN 20y	0.1	6.8	7.8	9.8	13.0	11.3
FH/FN 30y	5.2	5.6	6.3	8.4	12.5	15.2
GN 30y	8.7	6.8	8.9	11.3	14.4	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	111.02	(0.87)	109.73	111.13	106.23
Euro	1.12	(0.01)	1.13	1.16	1.23
Dollar Index	97.36	0.84	96.64	95.37	90.18
<b>Major Stock Indices</b>					
Dow Jones	25,321	(705)	25,106	25,917	24,895
S&P 500	2,725.8	(77.9)	2,707.9	2,871.7	2,739.0
NASDAQ	7,365.8	(230)	7,298.2	7,902.5	7,427.9
<b>Commodities</b>					
Gold	1,297.7	(1.5)	1,313.7	1,195.1	1,321.7
Crude Oil	54.66	(1.14)	52.72	67.75	60.12
Natural Gas	2.87	0.01	2.58	2.78	2.76
Wheat	431.5	-21.0	513.3	486.3	493.0
Corn	357.3	-6.8	374.3	354.3	385.8

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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