

Baker Market Update: Week in Review

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Even before William Tell stood before an archer's arrow and had one shot off the top of his head, apples have played a big role in myth, legend, and folklore. An apple even helped Isaac Newton invent gravity. Daughters are the apples of their fathers' eyes and for sons, the apple doesn't fall far from the tree. God didn't make the little green ones, and thankfully, one bad one won't spoil the whole bunch.

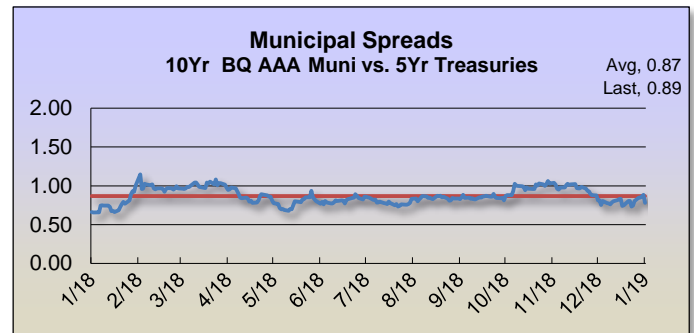
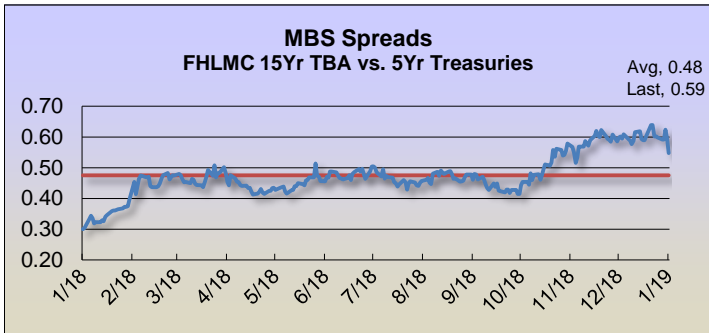
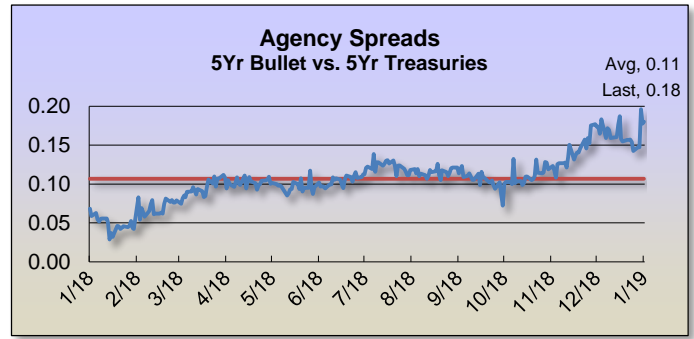
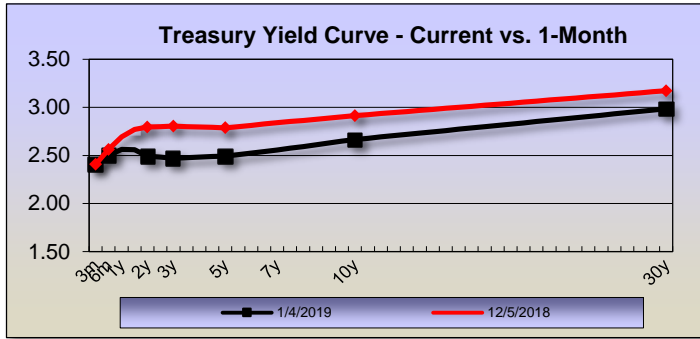
Good thing, too, because yesterday's disclosure by Apple, Inc. that it's cutting its sales and revenue forecasts was a rotten apple that cast a pall over markets everywhere. Investors took the news as yet another precursor to global economic despair and more fuel for the trade war fire. Dallas Fed President Robert Kaplan even suggested that it might be a good time for the FOMC to take a pause in hiking interest rates.

But that was yesterday, and this morning's Jobs Report from the Bureau of Labor Statistics (BLS) was a peach! The addition to Non-Farm Payrolls of 312k far exceeded the expected 184k and last month's 155k was revised to 176K. Some may point to the rise in the Unemployment Rate to 3.9% from 3.7% as a negative, but with the rise in the Labor Force Participation Rate to 63.1% from 62.9%, that's not a bad thing. One thing to remember is that the Unemployment Rate and Participation Rate are both derived from the Household Data Survey that underwent annual revisions prior to the release of this month's report. So, some might see a bit of an "apples and oranges" comparison, but the news is good, nonetheless.

More good news from the Establishment Survey reveals a larger-than-expected rise of 0.4% in Average Hourly Earnings and that brings the year-over-year growth rate to 3.2%. That's up a-tenth from last month, and two-tenths better than what was expected. These wage gains are very likely more significantly positive for economic growth than the outsized job creation. Although wage gains have been coming, they've been coming slowly, and with a variety of factors already working to suppress inflation, this morning's compensation data should be much welcomed by policymakers. Not so much welcomed by credit markets. The same good news that is helping equity markets recover from yesterday's debacle, has also pushed the Ten-Year Treasury's yield up about 10 basis points to 2.65%. How quickly the worm turns.

It was just Monday when the Dallas Fed reported its Manufacturing Index had become rotten to the core following its plummet to -5.1 from +17.6. That condition wasn't helped when just yesterday, the Institute of Supply Management (ISM) reported it's closely watched Manufacturing Index fell more than expected to 54.1 from 59.3. It was only supposed to slip a little bit to 57.5. The report's sub-index of Prices Paid also slipped more than anticipated to 54.9 from 60.7. Depending on one's attitude toward inflation, that can be either good news or bad. Now, when car sales go up, that's always good news and this week's report from Ward's Auto Group told us that annualized Total Vehicle Sales motored on up to 17 ½ million; more than last month, and more than this month's estimate.

In addition to the year's first Unemployment Report, a murderer's row of a panel discussion has been taking place this morning at a conference hosted by the American Economic Association in Atlanta. Ben Bernanke, Janet Yellen, and Jerome Powell have all been repeating each other's perceptions of a solid domestic economy and the importance of maintaining transparency and flexibility when formulating and adjusting monetary policy. Good to know. In an early TV interview this morning, Cleveland Fed President Loretta Mester shared her opinion that she can see the appropriateness of "one or two" rate hikes in 2019. Loretta, however, will be joining Mr. Kaplan at the kids' table as neither have a vote on this year's Committee. But, the redoubtable Mr. Powell does, and when asked this week by a reporter if he would offer the President his resignation if asked for it, Jerome simply said "no." How ya' like them apples? 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	2.41	0.03	2.41	1.97	1.40	2yr	2.55	2.65	2.42	2.58	17.00	2Yr	1.94	1.94	1.94	-
6mo	2.50	0.03	2.56	2.12	1.59	3yr	2.53	2.57	2.46	2.62	23.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.56	(0.02)	2.70	2.31	1.80	5yr	2.62	2.55	2.62	2.79	37.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.49	(0.02)	2.80	2.53	1.95	7yr	2.78	2.60	2.76	2.94	55.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.47	(0.03)	2.81	2.62	2.06	10yr	3.03	2.69	3.08	3.28	66.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.49	(0.06)	2.79	2.72	2.27	15yr	3.18	2.79	3.53	3.75	96.00	February TBA MBS				
7yr	2.56	(0.07)	2.84	2.79	2.38	20yr	3.33	2.82	3.89	4.14	92.00	Cpn	15Yr -Yld/AL	30Yr -Yld/AL		
10yr	2.67	(0.05)	2.91	2.83	2.45	25yr	3.47	2.83	4.00	4.25	95.50	2.00	2.94	4.8y		
30yr	2.99	(0.04)	3.17	2.96	2.79	30yr		2.83	4.10	4.37	99.00	2.50	2.93	5.1y		
												3.00	2.99	5.2y	3.29	9.3y
												3.50	3.13	4.7y	3.47	8.4y
												4.00			3.56	6.0y
												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	--	2.25	2.00	1.50
Primary Discount	3.00	--	2.75	2.50	2.00
2ndary Discount	3.50	--	3.25	3.00	2.50
Prime Rate	5.50	--	5.25	5.00	4.50
Sec. O.N. Finance	2.70	0.26	2.23	2.00	--
1 Month LIBOR	2.51	--	2.38	2.09	1.56
3 Month LIBOR	2.80	--	2.75	2.34	1.70
6 Month LIBOR	2.86	--	2.90	2.51	1.84
1 Year LIBOR	3.01	--	3.14	2.77	2.12
6 Month CD	2.84	0.03	2.89	2.50	1.84
1 Year CMT	2.50	--	2.72	2.33	1.81
REPO O/N	2.48	--	2.73	2.07	1.59
REPO 1Wk	2.44	--	2.24	1.99	1.46
CoF Federal	2.188	--	2.132	1.877	1.506
11th D. CoF (Nov)	1.060	--	1.079	0.885	0.746

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.62	2.74	2.78
6mo	2.66	2.74	2.78
1yr	2.75	2.80	2.92
2yr	2.68	2.84	2.87
3yr	2.68	2.86	2.89
4yr	2.72	2.91	2.93
5yr	2.77	2.97	2.98
7yr	3.00	3.23	3.13
10yr	3.24	3.50	3.37
5yr Am	2.73		2.94
10yr Am	3.03		3.22

Fed Fund Futures		
Maturity	Rate	
Jan-19	2.400	
Feb-19	2.400	
Mar-19	2.395	
Apr-19	2.390	
May-19	2.395	
Jun-19	2.405	
Jul-19	2.410	
Aug-19	2.400	
Sep-19	2.395	
Oct-19	2.390	
Nov-19	2.370	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/31	Dallas Fed Manf. Activity	Dec	15.00	-5.10	17.60	--
01/02	Markit US Manufacturing PMI	Dec F	53.90	53.80	53.90	--
01/03	MBA Mortgage Applications	12/28	--	-8.50%	-1.40%	--
01/03	Challenger Job Cuts YoY	Dec	--	35.30%	51.50%	--
01/03	ADP Employment Change	Dec	180k	271k	479k	157k
01/03	Initial Jobless Claims	12/29	220k	231k	246k	221k
01/03	Continuing Claims	12/22	1690k	1740k	1704k	1708k
01/03	Bloomberg Consumer Comfort	12/30	--	59.60	59.40	--
01/03	ISM Manufacturing	Dec	57.50	54.10	59.30	--
01/03	ISM Employment	Dec	--	56.20	58.40	--
01/03	ISM Prices Paid	Dec	57.70	54.90	60.70	--
01/03	ISM New Orders	Dec	--	51.10	62.10	--
01/03	Wards Total Vehicle Sales	Dec	17.24m	17.50m	17.40m	--
01/04	Change in Nonfarm Payrolls	Dec	184k	312k	455k	176k
01/04	Two-Month Payroll Net Revision	Dec	--	58k	--	--
01/04	Change in Private Payrolls	Dec	185k	301k	464k	173k
01/04	Change in Manufact. Payrolls	Dec	20k	32k	27k	--
01/04	Unemployment Rate	Dec	3.70%	3.90%	3.70%	--
01/04	Average Hourly Earnings YoY	Dec	3.00%	3.20%	3.10%	--
01/04	Average Weekly Hours All Employees	Dec	34.50	34.50	34.40	--
01/04	Labor Force Participation Rate	Dec	--	63.10%	62.90%	--
01/04	Underemployment Rate	Dec	--	7.60%	7.60%	--
01/04	Markit US Composite PMI	Dec F	--	54.40	53.60	--
01/04	Markit US Services PMI	Dec F	53.40	54.40	53.40	--
01/07	ISM Non-Manufacturing Index	Dec	59.50	--	60.70	--
01/08	NFIB Small Business Optimism	Dec	104	--	404.8	104.80
01/08	Trade Balance	Nov	-\$54.0b	--	-\$55.5b	--
01/08	JOLTS Job Openings	Nov	--	--	7079.0	--
01/08	Consumer Credit	Nov	\$14.250b	--	\$25.384b	--
01/08	Advance Goods Trade Balance	Nov	-\$76.0b	--	-\$77.2b	-\$77.0b
01/08	Wholesale Inventories MoM	Nov P	0.50%	--	0.80%	--
01/08	Retail Inventories MoM	Nov	--	--	0.90%	0.80%
01/08	New Home Sales	Nov	569k	--	544k	--
01/08	Construction Spending MoM	Nov	0.20%	--	-0.10%	--
01/08	Factory Orders Ex Trans	Nov F	--	--	0.30%	--
01/08	Durables Ex Transportation	Nov F	--	--	-0.30%	--
01/08	Cap Goods Ship Nondef Ex Air	Nov F	--	--	-0.10%	--
01/10	Initial Jobless Claims	1/5	--	--	231k	--
01/10	Continuing Claims	12/29	--	--	1740k	--
01/10	Bloomberg Consumer Comfort	1/6	--	--	59.60	--
01/10	Wholesale Trade Sales MoM	Nov	--	--	-0.20%	--
01/11	CPI YoY	Dec	1.90%	--	2.20%	--
01/11	CPI Ex Food and Energy YoY	Dec	2.20%	--	2.20%	--
01/11	CPI Core Index SA	Dec	--	--	259.48	--
01/11	CPI Index NSA	Dec	251.16	--	252.04	--
01/11	Real Avg Weekly Earnings YoY	Dec	--	--	0.50%	0.60%
01/11	Real Avg Hourly Earning YoY	Dec	--	--	0.80%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.4	11.8	13.8	14.2	18.2	31.0
FH/FN 15y	5.7	5.9	6.7	7.9	13.2	15.0
GN 15y	6.5	9.9	11.0	12.3	12.4	11.8
FH/FN 20y	--	5.4	6.8	7.9	8.3	9.7
FH/FN 30y	1.5	4.8	3.8	3.6	4.7	7.5
GN 30y	9.2	9.2	11.8	14.3	13.0	13.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	12.2	12.7	18.9	12.9	25.4
FH/FN 15y	7.6	8.0	8.2	11.1	12.8	21.3
GN 15y	9.3	10.3	13.3	14.9	14.7	14.3
FH/FN 20y	0.1	6.8	8.2	10.5	14.1	14.3
FH/FN 30y	5.2	5.7	6.5	8.2	12.9	15.0
GN 30y	9.7	8.3	9.2	11.5	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	108.12	(2.15)	112.77	110.49	112.75
Euro	1.14	(0.00)	1.13	1.17	1.21
Dollar Index	96.22	(0.26)	96.97	94.59	91.85
Major Stock Indices					
Dow Jones	23,295	157	25,027	24,175	25,075
S&P 500	2,509.5	20.7	2,700.1	2,713.2	2,724.0
NASDAQ	6,686.4	107	7,158.4	7,502.7	7,077.9
Commodities					
Gold	1,285.2	7.9	1,241.1	1,253.5	1,321.6
Crude Oil	49.03	4.42	53.25	74.14	62.01
Natural Gas	2.96	(0.68)	4.46	2.87	2.88
Wheat	517.3	6.8	519.3	491.5	434.0
Corn	383.5	9.0	374.3	342.8	351.0

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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