

## Baker Market Update: Week in Review

**Lester Murray**

*Associate Partner*

Financial Strategies Group

[lester@gobaker.com](mailto:lester@gobaker.com)

800.937.2257

**The Baker Group**

[GoBaker.com](http://GoBaker.com)

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



The Fed has “gone crazy” according to the President, but Christine Lagarde, head of the International Monetary Fund told reporters “I wouldn’t associate Jay Powell with craziness”. For Mr. Powell’s part, he doesn’t seem like one who is overly concerned about what other people think, one way or the other. Markets this week seem to suddenly be concerned about rising interest rates and “sell-off” is an accurate description of what both credit and equity markets experienced. Growing concerns over America’s trade relationship with China also played a part in this week’s market behavior and it’s interesting to note that, just today, the Department of Agriculture reported that Chinese buyers cancelled their purchase of 188k metric tons of American soybeans last week. That’s a lot of soybeans, and soybeans are big business.

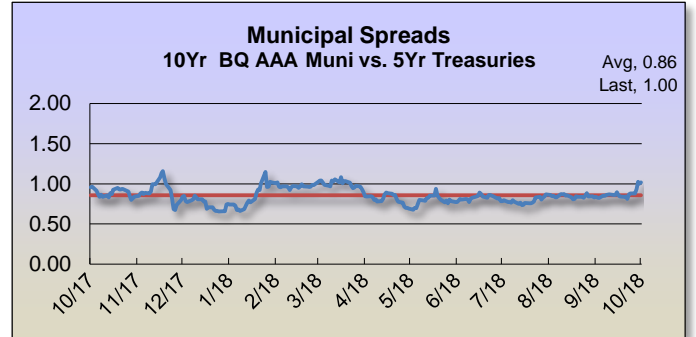
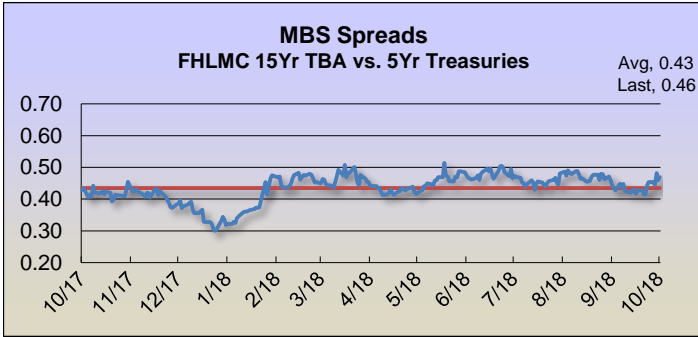
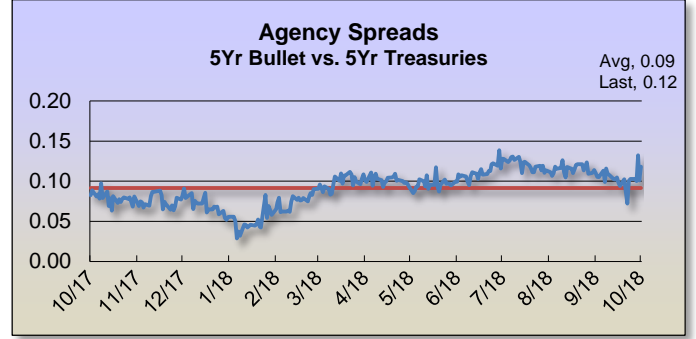
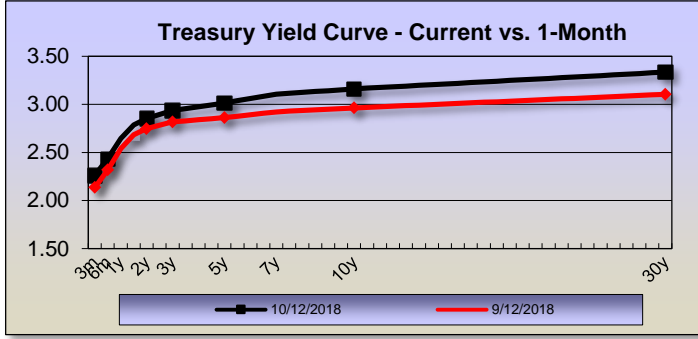
What about small business? Well, the National Federation of Independent Businesses (NFIB) reported a little slippage in its Optimism Index from 108.8 to 107.9. Maybe they got a heads-up about the out-of-control Fed. Meanwhile, we all got a heads-up about inflation with the Producer Price Index (PPI) coming in with the expected rise of 0.2% at the core level, bringing the year-over-year rate to the expected 2.5%. The Consumer Price Index (CPI) surprised many investors by coming in a little light. The expected increase of 0.2% in the “core” rate came in at only half that, bringing the year-over-year rate to 2.2%; also slightly tamer than expected.

Conversely, inflation adjusted Real Average Hourly Earnings brought us a surprise to the upside. That measure grew by 0.5% last month on the heels of a 0.2% rise the month before that. This is not insignificant, as readers may recall that this growth rate was negative not too long ago. In other price news, the Bureau of Labor Statistics reported that Import Prices jumped by 0.5% in September, with export prices not changing at all.

The outlook of consumers changed a bit according to the University of Michigan. It’s preliminary report for October came out today and it’s showing a decline in its Sentiment Index to 99 from just over 100. Markets were expecting that to go the other way.

While all this was going on, the Treasury spent much of the week trying to sell bonds. In addition to its weekly T-Bill auctions, refundings of 3’s, 10’s, and 30’s took place with yields coming in higher than they’ve been in a long time. The highest yield accepted for the three-year note was 2.99%, followed by 3.22% for the 10’s and 3.34% for the 30-year bonds. Weekly volumes of debt sales have been rising steadily and their continued growth could become problematic. Getting it sold is not the problem; it *will* get sold. But attracting enough buyers to digest the ever-growing supply might require ever-higher yields. Unfortunately for the President, that’s reality talking, not craziness.

Thanks to all of our clients and clients-to-be for attending our seminar in Oklahoma City this week. Hope everyone has 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	2.26	0.05	2.14	1.75	1.08	2yr	2.88	3.03	2.87	3.05	21.00	2Yr	1.94	1.94	1.94	-	
6mo	2.44	0.03	2.32	1.94	1.24	3yr	2.97	3.09	2.97	3.16	27.33	3Yr	2.10	2.11	2.11	2.10	
1yr	2.65	0.03	2.54	2.09	1.40	5yr	3.08	3.11	3.22	3.43	40.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.85	(0.03)	2.75	2.35	1.51	7yr	3.19	3.13	3.47	3.70	56.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.94	(0.05)	2.82	2.50	1.66	10yr	3.38	3.18	3.82	4.07	74.00	10Yr	2.57	2.62	2.69	2.72	
5yr	3.01	(0.06)	2.86	2.67	1.94	15yr	3.50	3.23	4.24	4.51	103.00	November TBA MBS					
7yr	3.11	(0.07)	2.92	2.78	2.15	20yr	3.62	3.24	4.58	4.87	92.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.16	(0.07)	2.96	2.84	2.32	25yr	3.75	3.23	4.68	4.98	94.00		2.00	3.51	5.0y		
30yr	3.34	(0.07)	3.10	3.04	2.85	30yr	3.75	3.21	4.77	5.08	96.00		2.50	3.36	5.2y		
													3.00	3.30	5.6y	3.69	9.8y
													3.50	3.42	5.2y	3.82	9.7y
												4.00			3.96	8.3y	
												4.50			4.00	6.5y	

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.25	--	2.00	1.75	1.25
Primary Discount	2.75	--	2.50	2.25	1.75
2ndary Discount	3.25	--	3.00	2.75	2.25
Prime Rate	5.25	--	5.00	4.75	4.25
Sec. O.N. Finance	2.17	(0.01)	1.94	1.76	--
1 Month LIBOR	2.28	--	2.15	1.90	1.24
3 Month LIBOR	2.44	0.03	2.33	2.34	1.36
6 Month LIBOR	2.64	0.01	2.56	2.47	1.53
1 Year LIBOR	2.95	--	2.87	2.71	1.81
6 Month CD	2.65	--	2.54	2.45	1.59
1 Year CMT	2.66	0.03	2.55	2.09	1.40
REPO O/N	2.26	0.03	1.84	1.77	1.06
REPO 1Wk	2.24	0.01	1.98	1.78	1.20
CoF Federal	2.024	--	1.979	1.664	1.429
11th D. CoF (Aug)	1.015	--	1.018	0.816	0.732

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.46	2.57	2.54
6mo	2.59	2.70	2.72
1yr	2.93	2.89	3.02
2yr	3.05	3.22	3.26
3yr	3.14	3.32	3.36
4yr	3.17	3.36	3.40
5yr	3.25	3.44	3.46
7yr	3.44	3.67	3.58
10yr	3.62	3.88	3.76
5yr Am	3.16		3.40
10yr Am	3.47		3.68

Fed Fund Futures	
Maturity	Rate
Oct-18	2.185
Nov-18	2.190
Dec-18	2.265
Jan-19	2.375
Feb-19	2.385
Mar-19	2.440
Apr-19	2.555
May-19	2.580
Jun-19	2.630
Jul-19	2.710
Aug-19	2.725

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
10/09	NFIB Small Business Optimism	Sep	108.30	107.90	108.80	--
10/10	MBA Mortgage Applications	10/5	--	-1.70%	0.00%	--
10/10	PPI Final Demand YoY	Sep	2.70%	2.60%	2.80%	--
10/10	PPI Ex Food and Energy YoY	Sep	2.50%	2.50%	2.30%	--
10/10	PPI Ex Food, Energy, Trade YoY	Sep	--	2.90%	2.90%	--
10/10	Wholesale Inventories MoM	Aug F	0.80%	1.00%	0.80%	--
10/10	Wholesale Trade Sales MoM	Aug	0.50%	0.80%	0.00%	0.20%
10/11	CPI MoM	Sep	0.20%	0.10%	0.20%	--
10/11	CPI Ex Food and Energy MoM	Sep	0.20%	0.10%	0.10%	--
10/11	CPI YoY	Sep	2.40%	2.30%	2.70%	--
10/11	CPI Ex Food and Energy YoY	Sep	2.30%	2.20%	2.20%	--
10/11	CPI Index NSA	Sep	252.70	252.44	252.15	--
10/11	CPI Core Index SA	Sep	258.63	258.44	258.14	--
10/11	Real Avg Weekly Earnings YoY	Sep	--	1.10%	0.50%	--
10/11	Real Avg Hourly Earning YoY	Sep	--	0.50%	0.20%	--
10/11	Initial Jobless Claims	10/6	207k	214k	207k	--
10/11	Continuing Claims	9/29	1660k	1660k	1650k	1656k
10/11	Bloomberg Consumer Comfort	10/7	--	59.50	61.60	--
10/12	Import Price Index YoY	Sep	3.10%	3.50%	3.70%	3.80%
10/12	Export Price Index YoY	Sep	2.90%	2.70%	3.60%	3.50%
10/12	U. of Mich. Sentiment	Oct P	100.50	99.00	100.10	--
10/12	U. of Mich. Current Conditions	Oct P	--	114.40	115.20	--
10/12	U. of Mich. Expectations	Oct P	--	89.10	90.50	--
10/12	U. of Mich. 1 Yr Inflation	Oct P	--	2.80%	2.70%	--
10/12	U. of Mich. 5-10 Yr Inflation	Oct P	--	2.30%	2.50%	--
10/15	Empire Manufacturing	Oct	20.00	--	19.00	--
10/15	Retail Sales Ex Auto and Gas	Sep	0.40%	--	0.20%	--
10/15	Retail Sales Control Group	Sep	0.40%	--	0.10%	--
10/15	Business Inventories	Aug	0.50%	--	0.60%	--
10/15	Monthly Budget Statement	Sep	\$80.0b	--	\$7.9b	--
10/16	Industrial Production MoM	Sep	0.20%	--	0.40%	--
10/16	Capacity Utilization	Sep	78.20%	--	78.10%	--
10/16	Manufacturing (SIC) Production	Sep	0.30%	--	0.20%	--
10/16	NAHB Housing Market Index	Oct	67.00	--	67.00	--
10/16	JOLTS Job Openings	Aug	6875.00	--	6939.00	--
10/16	Total Net TIC Flows	Aug	--	--	\$52.2b	--
10/16	Net Long-term TIC Flows	Aug	--	--	\$74.8b	--
10/17	MBA Mortgage Applications	10/12	--	--	-1.70%	--
10/17	Housing Starts	Sep	1210k	--	1282k	--
10/17	Building Permits	Sep	1275k	--	1229k	1249k
10/18	Philadelphia Fed Business Outlook	Oct	20.00	--	22.90	--
10/18	Initial Jobless Claims	10/13	210k	--	214k	--
10/18	Continuing Claims	10/6	--	--	1660k	--
10/18	Bloomberg Economic Expectations	Oct	--	--	57.50	--
10/18	Bloomberg Consumer Comfort	10/14	--	--	59.50	--
10/18	Leading Index	Sep	0.50%	--	0.40%	--
10/19	Existing Home Sales	Sep	5.30m	--	5.34m	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.5	12.9	14.9	15.4	21.0	31.6
FH/FN 15y	6.6	6.5	6.9	8.5	14.0	16.8
GN 15y	6.0	12.5	12.5	13.4	12.7	14.1
FH/FN 20y		6.2	7.8	9.0	9.7	11.3
FH/FN 30y	2.9	5.5	4.0	4.0	4.9	7.6
GN 30y	8.9	10.5	14.0	14.7	14.6	15.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.6	11.3	12.2	17.7	13.5	23.3
FH/FN 15y	7.3	7.9	7.1	9.3	12.9	21.8
GN 15y	11.3	10.0	12.8	14.7	14.4	13.8
FH/FN 20y	0.1	6.6	7.4	9.1	11.6	13.7
FH/FN 30y	4.8	5.6	6.0	6.4	8.5	12.1
GN 30y	10.0	7.7	8.8	10.5	16.0	19.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	111.91	(1.81)	111.26	107.33	112.28
Euro	1.16	0.00	1.16	1.23	1.18
Dollar Index	95.24	(0.39)	94.80	89.75	93.06
<b>Major Stock Indices</b>					
Dow Jones	25,027	(1,420)	25,999	24,483	22,841
S&P 500	2,745.0	(140.5)	2,888.9	2,664.0	2,550.9
NASDAQ	7,375.3	(413)	7,954.2	7,140.2	6,591.5
<b>Commodities</b>					
Gold	1,219.4	18.2	1,205.5	1,338.4	1,293.3
Crude Oil	71.01	(3.33)	70.37	67.07	50.60
Natural Gas	3.18	0.04	2.83	2.69	2.99
Wheat	518.5	-2.5	481.8	481.0	430.5
Corn	373.5	5.3	341.5	388.8	349.0

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	

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 10/12/2018 3:14PM