

Baker Market Update: Week in Review

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Most avid sports fans are familiar with a concept known as the announcer's curse. The moment a play-by-play commentator remarks that a quarterback hasn't thrown an interception all season or that a golfer hasn't missed a three-foot putt in two years, well, you know what happens next. On Tuesday of this week, Fed Chairman Jerome Powell told the National Association for Business Economics (NABE) the following: "There's no reason to think that the probability of a recession in the next year or two is at all elevated." And not only that, Jerome hasn't missed a three-foot putt in two years.

What about this morning's Jobs Report? Well, it was a bit of lip-out with the Non-Farm Payroll count of 134k coming in well short of the 185k expected by the experts. On the brighter side, revisions of the past two months added 87k to the numbers previously reported. Concerns over accelerating wage inflation were assuaged to a degree with Average Hourly Earnings rising 0.3% as expected for the month, putting the year-over-year pace at 2.8%; a tenth-of-a-per-cent lower than last month. For those still puzzled by the lackluster pace of wage growth given the ever-tightening labor conditions, it might be helpful to note that the growth in U.S. Labor Productivity has averaged just 1.1% since this recovery began in Q3 '09.

Nevertheless, the market for workers became tighter still in September with the Labor Force Participation Rate holding steady at 62.7% while the Unemployment Rate dropped two-tenths to 3.7%. That's the lowest since 1969, one year before Ford introduced the Pinto. When Mr. Powell was introduced on Wednesday to the audience attending a conference sponsored by *The Atlantic* magazine, he remarked that the economy's performance was "particularly bright" and went on to say "There's really no reason to think that this cycle can't continue for quite some time, effectively indefinitely."

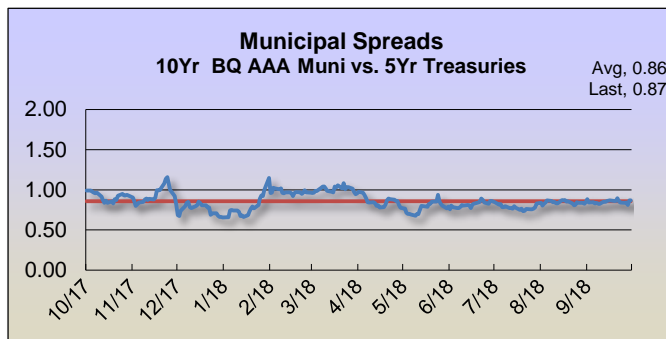
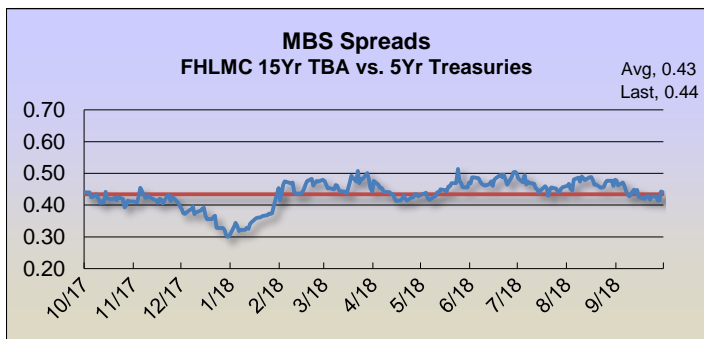
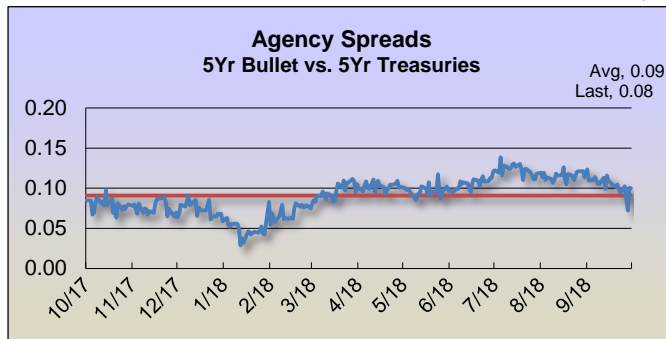
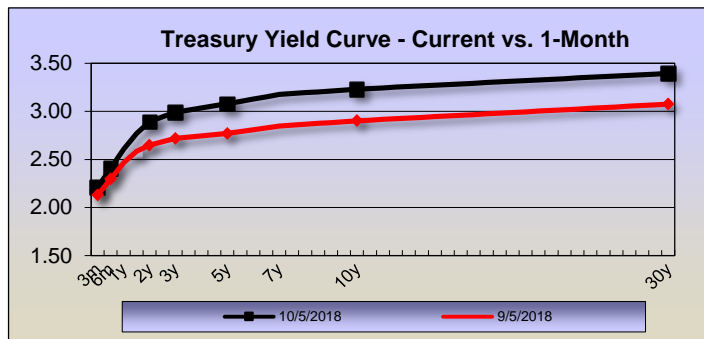
Needless to say, investors in Treasury bonds didn't like the sound of that very much and the inevitable sell-off pushed yields up to levels not seen in years. The Benchmark Ten-Year that not long ago seemed incapable of breaching 3%, rose above 3.20% and sits there still. Adding to the dismay of credit market participants, Mr. Powell went on to say that he could envision the FOMC pushing the Fed Funds rate above the generally perceived neutral rate of 3%.

So, no secret, Mr. Powell wants higher rates, but did any of his public pronouncements and economic cheerleading change the shape of the ever-flattening yield curve? Something did. At the close of last week, there was a 25 basis-point difference between the yields of the Two-Year and the Ten-Year. At the moment, that divide has grown to about 33 basis points, and that may be a little bit puzzling. Despite Mr. Powell's lack of concern over inflation rearing its ugly head, the price action in the longer part of the curve would seem to reflect growing concerns about that very thing. We'll see.

Data releases earlier in the week saw a mixed bag. Construction Spending for August was disappointing with just a rise of 0.1% against an expected increase of 0.4%. The ISM Manufacturing Index came in at 59.8 and that was just barely below expectations. But, the ISM Services Index was a big surprise to the upside. That measure came in at 61.6 versus an anticipated 58. People like good service. Amidst the mostly good news, however, was the bitter pill of a year-over-year 71% jump in job cuts as reported by the Challenger, Gray, and Christmas private payroll service. Unless you work at Wells Fargo, though, you'll probably be okay.

Measures of capex spending were kind of okay with Factory Orders rising by a higher-than-expected 2.3% and Durable Goods orders rising by the expected 4.4%. But, stripping out the volatile components of defense orders and transportation components, those Capital Goods orders fell by almost 1%.

On Monday, financial markets and the Fed will be closed in observance of Columbus Day. Jerome will be taking advantage of the holiday to play a little golf. Before he faces his first three-footer, though, he might want to consider what Alan Greenspan said back in December of 2001: "the problem, as I've indicated on numerous occasions and as a number of you have commented, is that we do not have the capability of reliably forecasting a recession." Knock it in J.P.! 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	2.21	0.01	2.13	1.71	1.06	2yr	2.94	3.07	2.84	3.02	21.00	2Yr	1.94	1.94	1.94	-
6mo	2.41	0.04	2.30	1.91	1.22	3yr	3.04	3.15	2.94	3.13	27.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.61	0.04	2.47	2.07	1.34	5yr	3.16	3.20	3.19	3.40	40.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.89	0.07	2.65	2.30	1.49	7yr	3.27	3.23	3.42	3.64	56.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.99	0.11	2.72	2.44	1.64	10yr	3.46	3.28	3.72	3.96	74.00	10Yr	2.57	2.62	2.69	2.72
5yr	3.08	0.13	2.77	2.64	1.95	15yr	3.59	3.32	4.14	4.41	103.00	November TBA MBS				
7yr	3.18	0.15	2.85	2.77	2.18	20yr	3.71	3.33	4.47	4.75	92.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.23	0.17	2.90	2.83	2.35	25yr	3.83	3.31	4.55	4.84	94.00	2.00	3.67	5.0y		
30yr	3.40	0.19	3.08	3.07	2.89	30yr		3.30	4.63	4.93	96.00	2.50	3.41	5.2y		
												3.00	3.36	5.6y	3.76	9.8y
												3.50	3.47	5.2y	3.88	9.7y
												4.00			4.01	8.3y
												4.50			4.05	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	2.18				
1 Month LIBOR	2.28	0.02	2.12	1.89	1.24
3 Month LIBOR	2.41	0.01	2.32	2.32	1.35
6 Month LIBOR	2.62	0.02	2.54	2.46	1.51
1 Year LIBOR	2.96	0.04	2.84	2.68	1.80
6 Month CD	2.67	0.08	2.50	2.46	1.49
1 Year CMT	2.63	0.05	2.49	2.07	1.33
REPO O/N	2.21	--	1.97	1.83	1.13
REPO 1Wk	2.22	--	1.98	1.81	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	2.44	2.55	2.52
6mo	2.55	2.65	2.67
1yr	2.91	2.87	2.96
2yr	3.06	3.23	3.27
3yr	3.16	3.34	3.38
4yr	3.21	3.40	3.43
5yr	3.29	3.48	3.49
7yr	3.49	3.72	3.64
10yr	3.67	3.93	3.82
5yr Am	3.18		3.43
10yr Am	3.51		3.73

Fed Fund Futures	
Maturity	Rate
Oct-18	2.185
Nov-18	2.190
Dec-18	2.270
Jan-19	2.390
Feb-19	2.405
Mar-19	2.470
Apr-19	2.585
May-19	2.615
Jun-19	2.670
Jul-19	2.760
Aug-19	2.785

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
10/01	Markit US Manufacturing PMI	Sep F	55.60	55.60	55.60	--
10/01	Construction Spending MoM	Aug	0.40%	0.10%	0.40%	0.20%
10/01	ISM Manufacturing	Sep	60.00	59.80	61.30	--
10/01	ISM Employment	Sep	--	58.80	58.50	--
10/01	ISM Prices Paid	Sep	71.40	66.90	72.10	--
10/01	ISM New Orders	Sep	--	61.80	65.10	--
10/02	Wards Total Vehicle Sales	Sep	16.80m	17.40m	16.60m	--
10/03	MBA Mortgage Applications	9/28	--	0.00%	2.90%	--
10/03	ADP Employment Change	Sep	184k	230k	463k	168k
10/03	Markit US Composite PMI	Sep F	--	53.90	53.40	--
10/03	ISM Non-Manufacturing Index	Sep	58.00	61.60	58.50	--
10/04	Challenger Job Cuts YoY	Sep	--	70.90%	13.70%	--
10/04	Initial Jobless Claims	9/29	215k	207k	244k	215k
10/04	Continuing Claims	9/22	1665k	1650k	4664k	1663k
10/04	Bloomberg Consumer Comfort	9/30	--	61.60	61.20	--
10/04	Factory Orders Ex Trans	Aug	--	0.10%	0.20%	0.10%
10/04	Durables Ex Transportation	Aug F	--	0.00%	0.10%	--
10/04	Cap Goods Ship Nondef Ex Air	Aug F	--	-0.20%	0.10%	--
10/05	Trade Balance	Aug	-\$53.6b	-\$53.2b	-\$50.4b	-\$50.0b
10/05	Change in Nonfarm Payrolls	Sep	185k	134k	204k	270k
10/05	Two-Month Payroll Net Revision	Sep	--	87k	--	--
10/05	Change in Private Payrolls	Sep	180k	121k	204k	254k
10/05	Change in Manufact. Payrolls	Sep	15k	18k	-3k	5k
10/05	Unemployment Rate	Sep	3.80%	3.70%	3.90%	--
10/05	Underemployment Rate	Sep	--	7.50%	7.40%	--
10/05	Average Hourly Earnings YoY	Sep	2.80%	2.80%	2.90%	--
10/05	Average Weekly Hours All Employees	Sep	34.50	34.50	34.50	--
10/05	Labor Force Participation Rate	Sep	62.70%	62.70%	62.70%	--
10/05	Consumer Credit	Aug	\$15,000b	--	\$16,640b	--
10/09	NFIB Small Business Optimism	Sep	108.80	--	108.80	--
10/10	PPI Final Demand YoY	Sep	2.80%	--	2.80%	--
10/10	PPI Ex Food and Energy YoY	Sep	2.60%	--	2.30%	--
10/10	PPI Ex Food, Energy, Trade YoY	Sep	--	--	2.90%	--
10/10	Wholesale Inventories MoM	Aug F	0.80%	--	0.80%	--
10/10	Wholesale Trade Sales MoM	Aug	--	--	0.00%	--
10/11	CPI YoY	Sep	2.40%	--	2.70%	--
10/11	CPI Ex Food and Energy YoY	Sep	2.30%	--	2.20%	--
10/11	CPI Index NSA	Sep	252.70	--	252.15	--
10/11	CPI Core Index SA	Sep	258.66	--	258.14	--
10/11	Real Avg Weekly Earnings YoY	Sep	--	--	0.50%	--
10/11	Real Avg Hourly Earning YoY	Sep	--	--	0.20%	--
10/11	Initial Jobless Claims	10/6	210k	--	207k	--
10/11	Continuing Claims	9/29	--	--	1650k	--
10/12	Import Price Index YoY	Sep	3.20%	--	3.70%	--
10/12	Export Price Index YoY	Sep	--	--	3.60%	--
10/12	U. of Mich. Current Conditions	Oct P	--	--	115.20	--
10/12	U. of Mich. 1 Yr Inflation	Oct P	--	--	2.70%	--

MBS Prepayments ⁴						
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	11.2	12.0	17.5	13.4	22.4
FH/FN 15y	7.3	7.9	7.1	9.3	13.1	22.7
GN 15y	11.3	10.0	12.8	14.7	14.4	13.8
FH/FN 20y	0.1	6.5	7.4	9.1	11.6	13.7
FH/FN 30y	4.7	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
Currencies					
Japanese Yen	113.62	(0.08)	111.53	107.39	112.82
Euro	1.15	(0.01)	1.16	1.22	1.17
Dollar Index	95.74	0.61	95.18	90.46	93.96
Major Stock Indices					
Dow Jones	26,371	(87)	25,975	24,505	22,775
S&P 500	2,877.6	(36.4)	2,888.6	2,662.8	2,552.1
NASDAQ	7,761.5	(285)	7,995.2	7,076.6	6,585.4
Commodities					
Gold	1,201.1	9.6	1,196.1	1,324.3	1,269.9
Crude Oil	74.41	1.16	68.72	63.54	50.79
Natural Gas	3.14	0.14	2.80	2.68	2.92
Wheat	520.3	11.3	493.8	464.8	440.8
Corn	367.0	10.8	351.8	389.5	349.5

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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