

Baker Market Update: Week in Review

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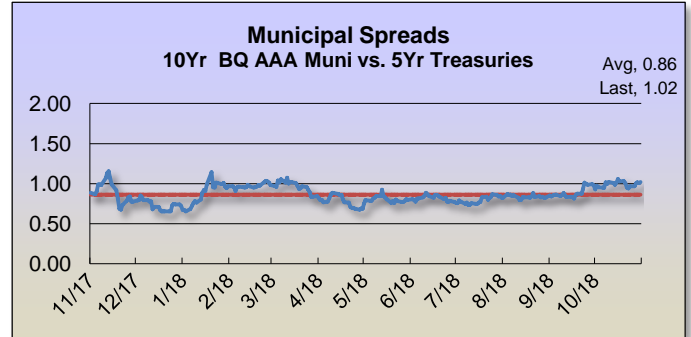
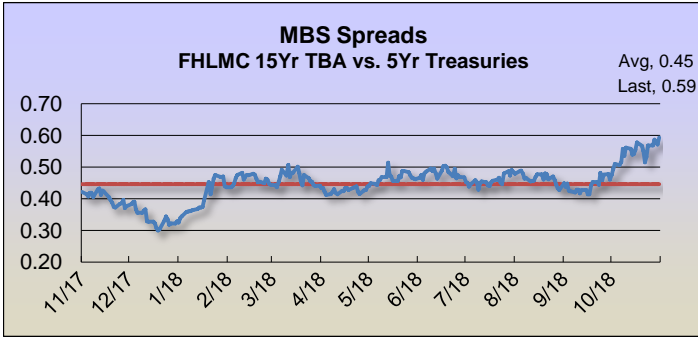
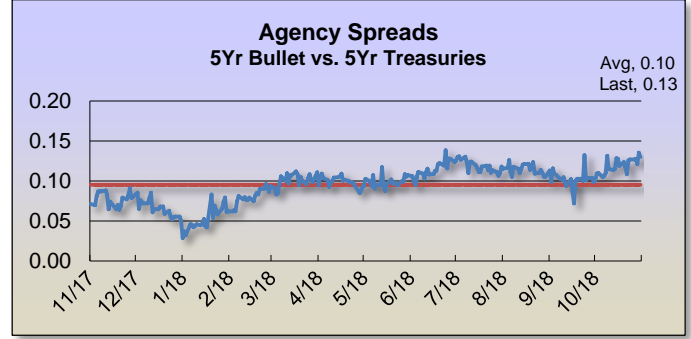
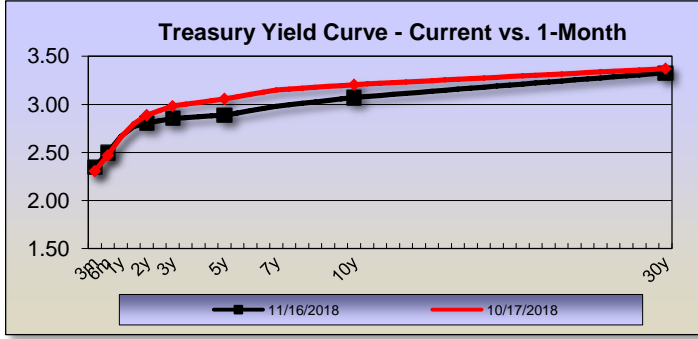
As the week's caravan of economic data reached investors' radars this week, some were expecting to see some evidence of the long-awaited inflation invasion. Has it arrived? According to the Bureau of Labor Statistics (BLS), inflation measures are on the rise, but those measures still fall a little short of reaching invasion status. In October, the Consumer Price Index without food and energy rose by 0.2% and that pretty much matched market expectations. It also brought the year-over-year rate to 2.1% and that was actually *down* a tenth from the prior month. Invasion? Not just yet. For those keeping track, the Federal Reserve's Five-Year Forward Breakeven Inflation Rate is languishing at 2.06%.

Perhaps it's the invasion's tardiness that prompted Fed Vice-Chairman Richard Clarida to comment, just this morning, that the FOMC's target for fed funds is getting closer to neutral and that future hikes should be dependent on economic data. How original! Earlier in the week, Mr. Clarida's boss displayed some originality of his own when he proclaimed in an interview that "Certainly all meetings are live now, there's no question about it now." Yes, he said "now" twice. But, the Chairman's originality didn't stop there. Mr. Powell was also quoted as saying "Our mandate is for U.S. economic conditions – stable prices, maximum employment and financial stability, but it's really important what happens around the world." Apparently, the dual mandate has grown; he's talking pretty tough, but does the inclusion of "financial stability" hint at a Powell Put for the stock market?

For the bond market, the usual suspects of trade-war escalation, a dimming picture for global growth, disquiet in the European Union, and inflation's tardiness have contributed to a rally that has brought the yield on the Ten-Year Treasury Note down to not much over 3.05%. This time last week it was almost 3.20%, and you're not alone if that behavior seems incongruous with the near certainty of another rate hike in December and the pronouncement that *all* Fed meetings should henceforth be considered "live".

The data that drives Mr. Powell *et al*, is also "live" and can be capricious. Market surveys expected the Small Business Optimism Index from the National Federation of Independent Businesses to rise even higher, but instead, it slipped slightly to 107.4 from 107.9. For the manufacturing sector, it was a mixed bag with the Empire Manufacturing Index rising more than expected to 23.3 from 21.1. Meanwhile, a similar measure from the Philadelphia Fed dropped precipitously and unexpectedly to 12.9 from 22.2. Retail Sales brightened up a bit last month as the expected rise of just 0.5% came in with an actual boost of 0.8%. Even with autos, the increase was still 0.7% and one might reasonably conclude that consumers are feeling good about spending money. Should they? Well, adjusted for inflation, Real Average Hourly Earnings rose by 0.7% in October and while that's kind of okay, it fails to portray the rise in wages that continues to be expected and continues to not show up.

A rise in imported inflation showed up to a degree last month as the Import Price Index rose by a higher-than-expected 0.5%. Without food and energy, the rise was only 0.2%. For goods flowing the other way, the Export Price Index rose by 0.4%; also more than expected. But, with many commodity prices falling, not just crude oil, along with stronger U.S. Dollar valuations, the inflation delay may be extended even further. For the time being, the inflation barbarians haven't quite made it to the gate. Jerome wants to keep it that way. 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	2.35	(0.00)	2.30	1.90	1.26	2yr	2.87	3.01	2.87	3.05	26.00	2Yr	1.94	1.94	1.94	-	
6mo	2.50	(0.02)	2.46	2.08	1.40	3yr	2.92	3.03	2.98	3.17	32.33	3Yr	2.10	2.11	2.11	2.10	
1yr	2.67	(0.06)	2.65	2.28	1.57	5yr	3.02	3.04	3.18	3.38	45.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.81	(0.12)	2.87	2.59	1.71	7yr	3.15	3.07	3.39	3.61	61.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.85	(0.14)	2.95	2.76	1.83	10yr	3.34	3.14	3.75	3.99	79.00	10Yr	2.57	2.62	2.69	2.72	
5yr	2.89	(0.15)	3.02	2.94	2.07	15yr	3.47	3.21	4.14	4.41	102.00	December TBA MBS					
7yr	2.98	(0.13)	3.11	3.06	2.25	20yr	3.62	3.24	4.47	4.75	92.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.07	(0.11)	3.16	3.10	2.38	25yr	3.74	3.23	4.58	4.87	94.00		2.00	3.52	4.9y		
30yr	3.33	(0.06)	3.33	3.22	2.83	30yr	3.74	3.23	4.69	4.99	96.00		2.50	3.35	5.2y		
													3.00	3.31	5.6y	3.65	9.8y
													3.50	3.47	5.3y	3.80	9.7y
												4.00			3.95	8.7y	
												4.50			4.01	6.8y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.25	--	2.25	1.75	1.25
Primary Discount	2.75	--	2.75	2.25	1.75
2ndary Discount	3.25	--	3.25	2.75	2.25
Prime Rate	5.25	--	5.25	4.75	4.25
Sec. O.N. Finance	2.28	0.07	2.21	1.79	--
1 Month LIBOR	2.30	--	2.29	1.94	1.27
3 Month LIBOR	2.64	0.03	2.45	2.32	1.42
6 Month LIBOR	2.86	--	2.65	2.49	1.62
1 Year LIBOR	3.12	--	2.97	2.75	1.89
6 Month CD	2.86	--	2.65	2.45	1.59
1 Year CMT	2.70	--	2.67	2.31	1.55
REPO O/N	2.31	0.06	2.26	1.76	1.20
REPO 1Wk	2.24	--	2.24	1.79	1.20
CoF Federal	2.070	--	2.024	1.749	1.452
11th D. CoF (Sep)	1.018	--	1.015	0.814	0.729

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.55	2.69	2.68
6mo	2.68	2.78	2.80
1yr	2.96	2.90	3.04
2yr	3.02	3.18	3.27
3yr	3.08	3.26	3.34
4yr	3.13	3.32	3.39
5yr	3.16	3.36	3.41
7yr	3.36	3.60	3.53
10yr	3.55	3.82	3.72
5yr Am	3.14		3.37
10yr Am	3.40		3.62

Fed Fund Futures	
Maturity	Rate
Nov-18	2.200
Dec-18	2.280
Jan-19	2.380
Feb-19	2.390
Mar-19	2.440
Apr-19	2.520
May-19	2.550
Jun-19	2.590
Jul-19	2.640
Aug-19	2.665
Sep-19	2.700

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/13	NFIB Small Business Optimism	Oct	108.00	107.40	107.90	--
11/13	Monthly Budget Statement	Oct	-\$100.0b	-\$100.5b	-\$63.2b	--
11/14	MBA Mortgage Applications	11/9	--	-3.2%	-0.7%	--
11/14	CPI MoM	Oct	0.3%	0.3%	0.1%	--
11/14	CPI Ex Food and Energy MoM	Oct	0.2%	0.2%	0.1%	--
11/14	CPI YoY	Oct	2.5%	2.5%	2.3%	--
11/14	CPI Ex Food and Energy YoY	Oct	2.2%	2.1%	2.2%	--
11/14	CPI Index NSA	Oct	252.83	252.89	252.44	--
11/14	CPI Core Index SA	Oct	258.95	258.94	258.44	--
11/13	Real Avg Weekly Earnings YoY	Oct	-\$100.0b	-\$100.5b	-\$63.2b	--
11/14	Real Avg Hourly Earning YoY	Oct	--	-3.20%	-0.70%	--
11/14	Empire Manufacturing	Nov	0.30%	0.30%	0.10%	--
11/14	Philadelphia Fed Business Outlook	Nov	0.20%	0.20%	0.10%	--
11/14	Retail Sales Advance MoM	Oct	2.50%	2.50%	2.30%	--
11/14	CPI Ex Food and Energy YoY	Oct	2.20%	2.10%	2.20%	--
11/14	CPI Index NSA	Oct	252.8	252.9	252.4	--
11/14	CPI Core Index SA	Oct	258.9	258.9	258.4	--
11/14	Real Avg Weekly Earnings YoY	Oct	--	0.90%	1.10%	0.80%
11/14	Real Avg Hourly Earning YoY	Oct	--	0.70%	0.50%	--
11/15	Empire Manufacturing	Nov	20.00	23.30	21.10	--
11/15	Philadelphia Fed Business Outlook	Nov	20.00	12.90	22.20	--
11/15	Retail Sales Advance MoM	Oct	0.50%	0.80%	0.10%	-0.10%
11/15	Retail Sales Ex Auto MoM	Oct	0.50%	0.70%	-0.10%	--
11/15	Retail Sales Ex Auto and Gas	Oct	0.40%	0.30%	0.00%	--
11/15	Retail Sales Control Group	Oct	0.40%	0.30%	0.50%	0.30%
11/15	Import Price Index MoM	Oct	0.10%	0.50%	0.50%	0.20%
11/15	Import Price Index ex Petroleum MoM	Oct	0.00%	0.20%	0.00%	--
11/15	Import Price Index YoY	Oct	3.30%	3.50%	3.50%	3.10%
11/15	Export Price Index MoM	Oct	0.10%	0.40%	0.00%	--
11/15	Export Price Index YoY	Oct	--	3.10%	2.70%	--
11/15	Initial Jobless Claims	11/10	213k	216k	214k	--
11/15	Continuing Claims	11/3	1625k	1676k	1623k	1630k
11/15	Business Inventories	Sep	0.30%	0.30%	0.50%	--
11/16	Industrial Production MoM	Oct	0.20%	0.10%	0.30%	0.20%
11/16	Capacity Utilization	Oct	78.20%	78.40%	78.10%	78.50%
11/16	Manufacturing (SIC) Production	Oct	0.20%	0.30%	0.20%	0.30%
11/16	Kansas City Fed Manf. Activity	Nov	11.00	15.00	8.00	--
11/16	Total Net TIC Flows	Sep	--	--	\$108.2b	--
11/16	Net Long-term TIC Flows	Sep	\$62.7b	--	\$131.8b	--
11/19	NAHB Housing Market Index	Nov	67.00	--	68.00	--
11/20	Housing Starts	Oct	1230k	--	1201k	--
11/20	Housing Starts MoM	Oct	2.40%	--	-0.05	--
11/20	Building Permits	Oct	1260k	--	1241k	--
11/20	Housing Starts MoM	Oct	2.40%	--	-0.01	--
11/21	Building Permits	Oct	1260k	--	0.03	1270k
11/21	Building Permits MoM	Oct	-0.80%	--	0.01	1.70%
11/21	MBA Mortgage Applications	11/16	--	--	0.00	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	12.5	14.7	15.1	20.0	29.7
FH/FN 15y	6.1	6.4	7.2	8.5	14.0	16.2
GN 15y	6.1	11.4	12.0	13.2	13.1	13.2
FH/FN 20y		6.1	7.5	8.7	9.2	10.9
FH/FN 30y	2.2	5.2	3.9	3.9	5.0	7.8
GN 30y	7.4	10.5	13.1	15.3	14.0	14.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.4	11.3	12.2	18.1	13.2	24.4
FH/FN 15y	7.3	7.9	7.1	8.4	12.0	21.5
GN 15y	10.8	10.0	12.5	14.4	14.1	13.4
FH/FN 20y	0.1	6.5	7.0	8.3	9.9	11.8
FH/FN 30y	4.9	5.6	5.9	6.2	7.8	11.3
GN 30y	10.2	7.6	8.5	9.5	15.2	18.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	112.77	(1.06)	112.25	110.40	113.06
Euro	1.14	0.01	1.16	1.18	1.18
Dollar Index	96.44	(0.47)	95.05	93.39	93.93
Major Stock Indices					
Dow Jones	25,358	(632)	25,798	24,769	23,458
S&P 500	2,734.0	(47.0)	2,809.9	2,722.5	2,585.6
NASDAQ	7,223.8	(183)	7,645.5	7,398.3	6,793.3
Commodities					
Gold	1,223.1	14.5	1,227.3	1,291.5	1,278.2
Crude Oil	56.71	(3.48)	71.92	71.49	55.14
Natural Gas	4.14	0.42	3.24	2.82	3.05
Wheat	508.0	6.0	523.5	494.3	421.5
Corn	364.8	-5.0	375.3	399.3	336.5

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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