

Baker Market Update: Week in Review

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As Americans prepare to give back the daylight they've been saving since March, the Bureau of Labor Statistics announced that a lot more of us have a reason to rise and shine come Monday morning. In today's Employment Report for October, the Bureau of Labor Statistics (BLS) reported that Non-Farm Payrolls increased by a much larger-than-expected 250k. For those that attach significance to the Unemployment Rate, it remained unchanged at 3.7% while the Labor Force Participation Rate recorded a two-tenths rise to 62.9%. That *is* significant.

Also significant was the reported 3.1% year-over-year growth rate in Average Hourly Earnings. That's up from 2.8% last month and may perhaps generate renewed belief in Mr. Phillip's curve. Those that are untroubled by the acceleration in wage inflation may not be aware of an even more alarming menace. The makers of Oreos, in addition to the makers of Hershey Kisses, announced this week that they'll soon be raising prices as a result of rising costs. If that has anything to do with the Fed raising rates, we can all agree that it's time for Jerome and them to nip *that* little project in the bud.

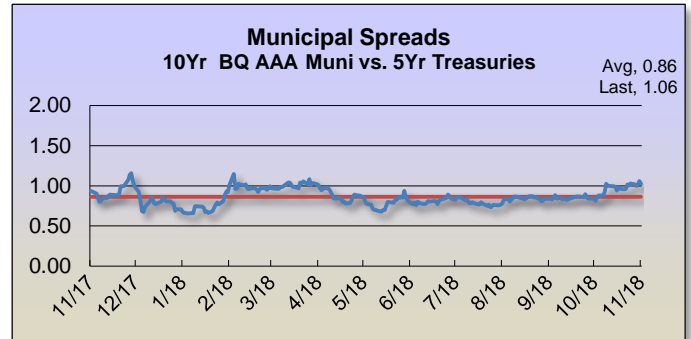
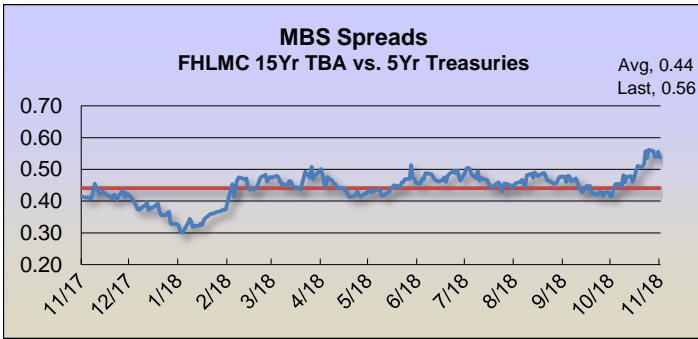
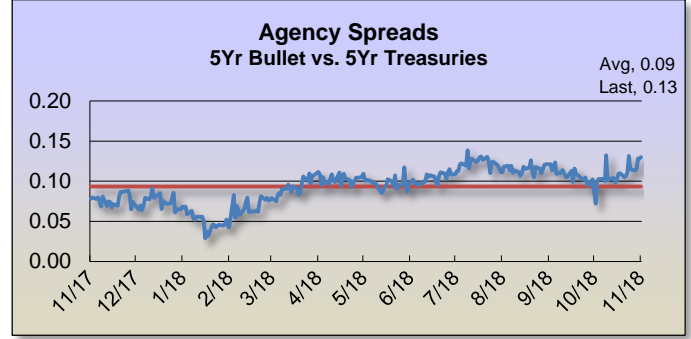
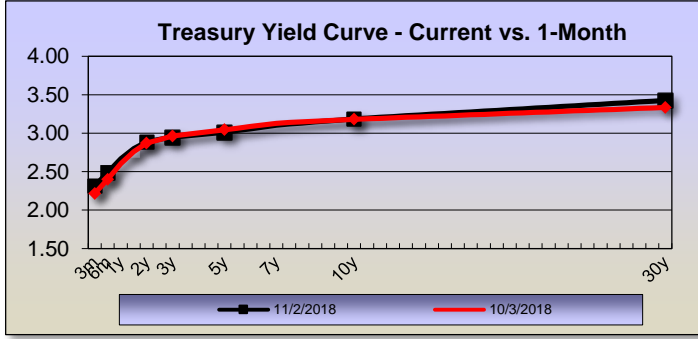
The President's little tariff project was in the spotlight this week as concerns over intensifying discord between China and the U.S. sent markets reeling. Those same markets managed to become *unreeled* after reports that a phone call between the two nations' leaders resulted in a "very good conversation." Those same reports failed to disclose that there were no interpreters available to sit in on the call and neither Mr. Trump nor Mr. Xi had any idea what was said by the other.

Yesterday, the Institute of Supply Management (ISM) said that its Manufacturing Index slipped hard, and unexpectedly, to 57.7 from 59. The manufacturing sector has been enjoying a renaissance this year and enjoyed an employment gain of 32k last month. Earlier in the week we learned that, similar to the ISM Index, the Chicago Purchasing Managers' Index dropped, also unexpectedly, to 58.4 from 60.4. Some see these declines as damage from tariffs and tariff fears. According to the Conference Board, consumers aren't afraid of anything as it reported its measure of Consumer Confidence rose from last month's downwardly revised reading of 135.3 to a new and loftier level of 137.9. Those same consumers may have missed reports from two of the nation's largest credit card issuers, Capital One and Discover, that they'll be tightening lending standards due to concerns about how much longer the economy's recovery can last. Did they tell Jerome that?

The CoreLogic Case-Shiller U.S. Home Price Index told us all that house prices are still rising, just not as fast as they have been. The 5.77% increase in August was less than the previous month's 6% rise, but still on the rise at a pace almost triple the rate of core inflation. Recent reports of sales volumes have been disappointing, but it still looks like sellers are getting good prices. But, that's looking backwards, and also looking backwards were reports that Unit Labor Costs rose by a higher-than-expected 1.2% last quarter while Non-Farm Productivity rose 2.2%. That sounds pretty good, but that's down from the second quarter's 2.9% productivity growth rate. And as we all know, there is more to the cost of labor than just wages. The BLS also reported that its more comprehensive Employment Cost Index rose by only 0.8% in the third quarter. So, while the long overdue wage growth is starting to appear, the "all-in" costs to employers is growing at a much slower pace. What gives? No more free parking?

Not sure about that, but we did learn that there's no more growth in Construction Spending. After a significant downward revision that nearly wiped out August's reported growth, September came in at 0.0%. The nation's Trade im-Balance, to the surprise of no one, grew more unbalanced as August's deficit of \$53.2B became September's \$54.0.

A lot of news and information for market participants to digest this week. Some good, some not so good, and some contradictory. Equities continue to bounce around all over the place, while inflation fears, or just fears in general, seem to be what's contributing to the Treasury curve's sell-off. The Ten-Year is up to about 3.20% with the Two-Year about 30 basis points lower. If this isn't a harbinger of growing inflationary expectations, there was a little announcement from the Treasury earlier this week that might be; officials there announced that its issuance of Treasury Inflation Protected Securities (TIPS) will be expanded to \$30B from 2018's \$20B. So, whether or not inflation springs forward or falls back, there will be more protection available. But, there will be no podcast available for a while as we rearrange and remodel our "studio." 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	2.31	(0.01)	2.21	1.83	1.16	2yr	2.94	3.10	2.91	3.10	26.00	2Yr	1.94	1.94	1.94	-	
6mo	2.49	0.02	2.40	2.03	1.29	3yr	3.02	3.14	3.01	3.20	32.33	3Yr	2.10	2.11	2.11	2.10	
1yr	2.67	0.05	2.57	2.24	1.44	5yr	3.14	3.16	3.23	3.44	45.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.89	0.08	2.81	2.49	1.61	7yr	3.24	3.19	3.47	3.70	61.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.95	0.09	2.88	2.63	1.74	10yr	3.46	3.25	3.85	4.10	79.00	10Yr	2.57	2.62	2.69	2.72	
5yr	3.01	0.10	2.95	2.80	2.00	15yr	3.58	3.31	4.26	4.53	102.00	December TBA MBS					
7yr	3.11	0.11	3.02	2.92	2.20	20yr	3.71	3.33	4.56	4.86	92.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.19	0.11	3.06	2.97	2.35	25yr	3.84	3.32	4.66	4.96	94.00		2.00	3.56	4.9y		
30yr	3.43	0.12	3.22	3.15	2.83	30yr	3.84	3.31	4.76	5.07	96.00		2.50	3.44	5.2y		
													3.00	3.39	5.6y	3.74	9.8y
													3.50	3.52	5.2y	3.88	9.7y
												4.00			4.02	8.3y	
												4.50			4.08	6.9y	

* 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	2.22	0.03	2.22	1.76	--
1 Month LIBOR	2.31	0.01	2.26	1.91	1.24
3 Month LIBOR	2.56	0.05	2.40	2.36	1.38
6 Month LIBOR	2.80	0.04	2.60	2.51	1.58
1 Year LIBOR	3.08	0.04	2.92	2.77	1.85
6 Month CD	2.81	0.01	2.59	2.50	1.56
1 Year CMT	2.67	--	2.60	2.26	1.46
REPO O/N	2.34	0.12	2.28	1.73	1.20
REPO 1Wk	2.24	--	2.22	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	2.52	2.65	2.63
6mo	2.66	2.76	2.78
1yr	2.96	2.92	3.01
2yr	3.10	3.28	3.31
3yr	3.16	3.35	3.38
4yr	3.22	3.43	3.45
5yr	3.26	3.47	3.47
7yr	3.44	3.69	3.59
10yr	3.63	3.90	3.77
5yr Am	3.20		3.44
10yr Am	3.48		3.69

Fed Fund Futures	
Maturity	Rate
Nov-18	2.203
Dec-18	2.280
Jan-19	2.390
Feb-19	2.400
Mar-19	2.465
Apr-19	2.565
May-19	2.590
Jun-19	2.640
Jul-19	2.710
Aug-19	2.730
Sep-19	2.765

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
10/29	Personal Income	Sep	0.40%	0.20%	0.30%	0.40%
10/29	Real Personal Spending	Sep	0.30%	0.30%	0.20%	0.40%
10/29	PCE Deflator YoY	Sep	2.00%	2.00%	2.20%	--
10/29	PCE Core YoY	Sep	2.00%	2.00%	2.00%	--
10/30	S&P CoreLogic CS 20-City YoY NSA	Aug	5.80%	5.49%	5.92%	5.90%
10/30	S&P CoreLogic CS US HPI YoY NSA	Aug	--	5.77%	6.00%	5.99%
10/30	Conf. Board Consumer Confidence	Oct	135.90	137.90	138.40	135.30
10/30	Conf. Board Present Situation	Oct	--	172.80	173.10	169.40
10/30	Conf. Board Expectations	Oct	--	114.60	115.30	112.50
10/31	MBA Mortgage Applications	10/26	--	-2.50%	4.90%	--
10/31	ADP Employment Change	Oct	187k	227k	230k	218k
10/31	Employment Cost Index	3Q	0.70%	0.80%	0.60%	--
10/31	Chicago Purchasing Manager	Oct	60.00	58.40	60.40	--
11/01	Challenger Job Cuts YoY	Oct	--	153.60%	70.90%	--
11/01	Nonfarm Productivity	3Q P	2.10%	2.20%	2.90%	3.00%
11/01	Unit Labor Costs	3Q P	1.00%	1.20%	-1.00%	--
11/01	Initial Jobless Claims	10/27	212k	214k	215k	216k
11/01	Continuing Claims	10/20	1640k	1631k	1636k	1638k
11/01	Bloomberg Consumer Comfort	10/28	--	60.30	60.10	--
11/01	Markit US Manufacturing PMI	Oct F	55.80	55.70	55.90	--
11/01	ISM Manufacturing	Oct	59.00	57.70	59.80	--
11/01	ISM Employment	Oct	--	56.80	58.80	--
11/01	ISM Prices Paid	Oct	69.00	71.60	66.90	--
11/01	ISM New Orders	Oct	--	57.40	61.80	--
11/02	Trade Balance	Sep	-\$53.6b	-\$54.0b	-\$53.2b	-\$53.3b
11/02	Change in Nonfarm Payrolls	Oct	200k	250k	134k	118k
11/02	Two-Month Payroll Net Revision	Oct	--	0k	--	--
11/02	Change in Private Payrolls	Oct	195k	246k	121k	--
11/02	Change in Manufact. Payrolls	Oct	16k	32k	18k	--
11/02	Unemployment Rate	Oct	3.70%	3.70%	3.70%	--
11/02	Underemployment Rate	Oct	--	7.40%	7.50%	--
11/02	Average Hourly Earnings YoY	Oct	3.10%	3.10%	2.80%	--
11/02	Average Weekly Hours All Employees	Oct	34.50	34.50	34.50	34.40
11/02	Labor Force Participation Rate	Oct	62.70%	62.90%	62.70%	--
11/02	Factory Orders Ex Trans	Sep	--	0.40%	0.10%	0.40%
11/02	Durables Ex Transportation	Sep F	--	0.00%	0.10%	--
11/02	Cap Goods Ship Nondef Ex Air	Sep F	--	-0.10%	0.00%	--
11/05	Markit US Composite PMI	Oct F	--	--	54.80	--
11/05	ISM Non-Manufacturing Index	Oct	59.00	--	61.60	--
11/06	JOLTS Job Openings	Sep	7125.00	--	7136.00	--
11/08	Initial Jobless Claims	11/3	214k	--	214k	--
11/08	Continuing Claims	10/27	--	--	1631k	--
11/08	FOMC Rate Decision (Upper Bound)	11/8	2.25%	--	2.25%	--
11/08	FOMC Rate Decision (Lower Bound)	11/8	2.00%	--	2.00%	--
11/09	PPI Final Demand YoY	Oct	2.60%	--	2.60%	--
11/09	PPI Ex Food and Energy YoY	Oct	2.40%	--	2.50%	--
11/09	PPI Ex Food, Energy, Trade YoY	Oct	--	--	2.90%	--

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	12.1	17.7	13.1	23.3
FH/FN 15y	7.3	7.8	6.9	9.0	11.7	21.6
GN 15y	11.3	10.0	12.7	14.6	14.3	13.7
FH/FN 20y	0.1	6.5	7.1	8.6	10.8	12.4
FH/FN 30y	4.8	5.6	5.9	6.2	8.3	11.1
GN 30y	10.0	7.6	8.6	10.0	16.0	18.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	112.95	1.04	113.65	109.84	114.08
Euro	1.14	0.00	1.15	1.20	1.17
Dollar Index	96.28	(0.08)	95.51	92.51	94.69
Major Stock Indices					
Dow Jones	25,342	653	26,774	23,925	23,516
S&P 500	2,726.8	68.2	2,923.4	2,635.7	2,579.9
NASDAQ	7,377.9	211	7,999.5	7,100.9	6,714.9
Commodities					
Gold	1,234.2	1.7	1,202.4	1,305.6	1,278.1
Crude Oil	63.23	(4.36)	75.23	67.93	54.54
Natural Gas	3.20	0.01	3.17	2.75	2.94
Wheat	508.0	2.8	519.3	525.8	426.0
Corn	367.8	--	367.5	396.0	350.5

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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