

Baker Market Update: Week in Review

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“Over the river and through the woods” would hardly describe the route taken by some financial markets this week. But, “through the guardrail and into the ravine” does not conjure up a cheerful holiday image; despite its being closer to the truth. Maybe some of these equity investors just can’t handle the truth. Maybe they need someone on that wall; that wall of worry that continues to darken economic prospects that, until very recently, seemed so bright.

The sources of all this worry vary widely, and the menu is growing. If nothing else, jittery investors have lots of choices when it comes to selecting anxiety-producing variables. Concerns over a trade-war escalation between China and America seems to top the list of many, but surely those concerns will be assuaged when the G-20 nations convene next week in Buenos Aires. What better place to work out international economic policies than Argentina, a long-recognized bastion of fiscal responsibility and stable government stewardship. What could go wrong?

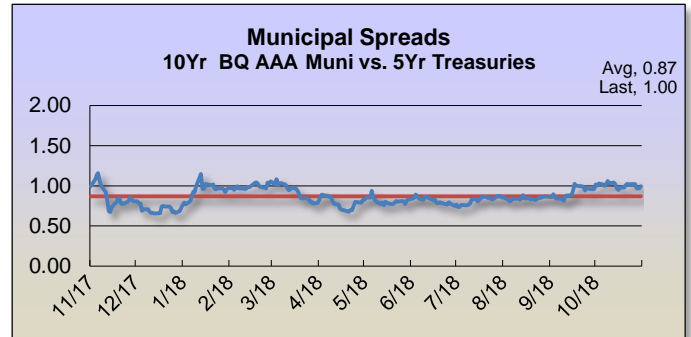
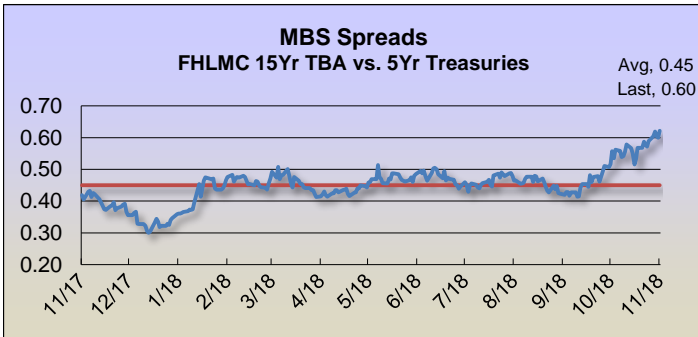
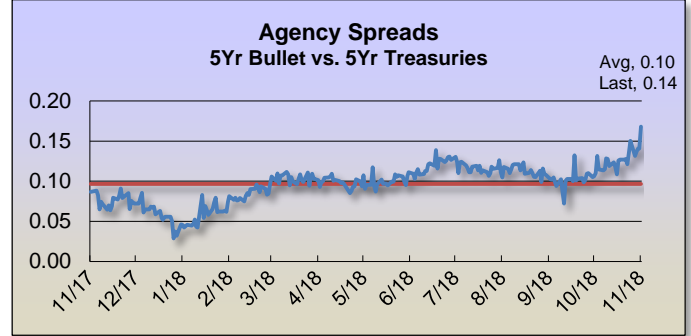
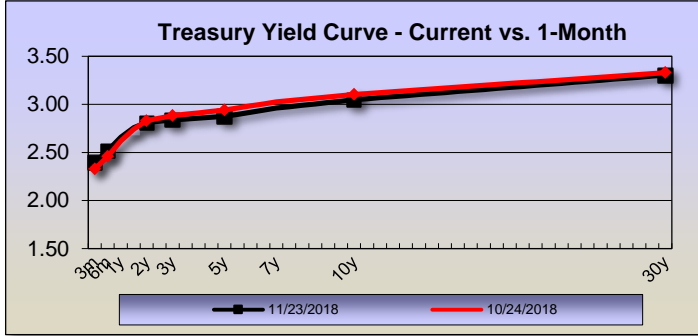
And what could go wrong with Theresa May’s Brexit deal with the European Union? Except that no one seems to know what the deal really is. One thing that most market participants seem to “know” is that interest rates in the U.S. will continue to move higher. One wonders if they “know” that the Ten-Year Treasury was yielding 3.24% on November 8, and is yielding 3.03% at the moment. Perhaps they overheard New York Fed President John Williams say on Monday that “We’ll be likely raising interest rates somewhat but it’s really in the context of a very strong economy.” Who writes your stuff, John? Theresa May?

Does that mean that he thinks the economy is very strong and higher rates are, and will be, justified? Does it mean he’s not sure and is waiting to see? And how much is “somewhat”? Will “somewhat” get us to neutral, or past it, as Chairman Jerome seems to want. And how “likely” is “likely”? This morning, futures markets imply a 70% likelihood of a Fed Funds nudge to 2.50% (upper end of range) at the FOMC’s December meeting. That’s for the December 2018 meeting. For *next* December’s meeting, only a 32% implied probability exists for that rate to become 3% or higher. That doesn’t exactly line up with the Fed’s latest connect-the-dots-plot from its September meeting. We’ll see how the new batch of dots look in about three weeks.

With these market conditions, there’s no telling what might happen between now and then. If luck is with us, no more unfortunate accidents with banana peels will befall any more Saudi journalists. The crude oil accident-in-progress is disconcerting enough, all by itself. West Texas Intermediate is not much over \$50/barrel this “Black-Gold Friday” and that’s down almost \$4 just today. Falling demand for fossil fuel is usually not part of a global growth picture, but something even more troubling was reported by Apple earlier this week. Worldwide demand for iPhones is slowing, with Apple disclosing in its latest earnings call that revenue *fell* for the first time in 13 years. When iPhone’s quit moving, things are getting serious.

The National Association of Home Builders (NAHB) didn’t help, when, on Monday, it reported its Market Index hasn’t been this low since 2014. The housing industry affects a lot more things than housing, and that’s a big concern for all; right up there with the Treasury’s huge auction calendar. If demand for iPhones is declining, can demand for Treasury bonds be far behind? Maybe, but one wouldn’t know it by looking at recent price behavior. Fear, angst, and some not-so-shiny numbers have combined to produce a nice little bond rally. Along with dimming prospects for the housing market, Durable Goods Orders fell 4.4% last month and within that, Non-Defense and Non-Transportation orders were flat. But, one can’t help but wonder if the decline in the University of Michigan’s Consumer Sentiment Index from 98.3 to 97.5 is really about consumer sentiment, or more about Ohio State. Maybe some of each.

And, if that’s the answer you gave yesterday when asked if you wanted pumpkin pie or apple pie, don’t forget, there’s pecan pie, too. After that wild ride to Grandma’s house, you deserve it. 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	2.40	0.05	2.33	1.91	1.29	2yr	2.88	2.99	2.83	3.01	26.00	2Yr	1.94	1.94	1.94	-	
6mo	2.52	0.02	2.47	2.10	1.44	3yr	2.90	3.00	2.94	3.13	33.67	3Yr	2.10	2.11	2.11	2.10	
1yr	2.66	(0.00)	2.65	2.29	1.59	5yr	3.01	3.01	3.14	3.34	49.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.81	0.01	2.88	2.53	1.73	7yr	3.13	3.04	3.33	3.55	65.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.84	(0.00)	2.95	2.66	1.83	10yr	3.33	3.10	3.67	3.90	83.00	10Yr	2.57	2.62	2.69	2.72	
5yr	2.87	(0.00)	3.01	2.83	2.04	15yr	3.46	3.17	4.05	4.31	106.00	December TBA MBS					
7yr	2.96	(0.01)	3.10	2.95	2.21	20yr	3.58	3.19	4.37	4.65	95.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.05	(0.02)	3.17	2.99	2.32	25yr	3.69	3.18	4.48	4.77	97.00		2.00	3.48	4.9y		
30yr	3.30	(0.01)	3.37	3.15	2.74	30yr		3.18	4.59	4.89	99.00		2.50	3.32	5.2y		
													3.00	3.30	5.6y	3.66	9.8y
													3.50	3.46	5.3y	3.81	9.6y
												4.00			3.95	8.2y	
												4.50			4.01	6.7y	

* 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	2.18	(0.02)	2.19	1.69	--
1 Month LIBOR	2.32	--	2.28	1.96	1.31
3 Month LIBOR	2.68	0.05	2.48	2.33	1.45
6 Month LIBOR	2.89	0.02	2.72	2.50	1.64
1 Year LIBOR	3.11	--	3.02	2.77	1.93
6 Month CD	2.89	0.03	2.80	2.42	1.63
1 Year CMT	2.67	--	2.67	2.35	1.62
REPO O/N	2.30	--	2.24	1.78	0.70
REPO 1Wk	2.24	--	2.24	1.78	1.20
CoF Federal	2.132	--	2.070	1.811	1.472
11th D. CoF (Sep)	1.018	--	1.015	0.814	0.729

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.56	2.70	2.69
6mo	2.69	2.80	2.82
1yr	2.97	2.94	3.08
2yr	2.99	3.16	3.23
3yr	3.03	3.23	3.29
4yr	3.08	3.29	3.34
5yr	3.13	3.35	3.38
7yr	3.31	3.57	3.49
10yr	3.51	3.78	3.69
5yr Am	3.10		3.33
10yr Am	3.35		3.58

Fed Fund Futures	
Maturity	Rate
Nov-18	2.197
Dec-18	2.280
Jan-19	2.385
Feb-19	2.395
Mar-19	2.440
Apr-19	2.510
May-19	2.540
Jun-19	2.570
Jul-19	2.610
Aug-19	2.630
Sep-19	2.650

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/19	NAHB Housing Market Index	Nov	67.00	60.00	68.00	--
11/20	Housing Starts	Oct	1228k	1228k	1204k	1210k
11/20	Building Permits	Oct	1260k	1263k	1244k	1270k
11/21	MBA Mortgage Applications	11/16	--	-0.10%	-3.20%	--
11/21	Durable Goods Orders	Oct P	-2.60%	-4.40%	0.70%	-0.10%
11/21	Durables Ex Transportation	Oct P	0.40%	0.10%	0.00%	-0.60%
11/21	Cap Goods Orders Nondef Ex Air	Oct P	0.20%	0.00%	-0.10%	-0.50%
11/21	Cap Goods Ship Nondef Ex Air	Oct P	0.30%	0.30%	-0.10%	-0.20%
11/21	Initial Jobless Claims	11/17	215k	224k	216k	221k
11/21	Continuing Claims	11/10	1653k	1668k	1676k	1670k
11/21	Bloomberg Consumer Comfort	11/18	--	61.30	60.50	--
11/21	Bloomberg Economic Expectations	Nov	--	56.00	58.50	--
11/21	Leading Index	Oct	0.10%	0.10%	0.50%	0.60%
11/21	Existing Home Sales	Oct	5.20m	5.22m	5.15m	--
11/21	U. of Mich. Current Conditions	Nov F	--	112.30	113.20	--
11/21	U. of Mich. 1 Yr Inflation	Nov F	--	2.80%	2.80%	--
11/23	Markit US Manufacturing PMI	Nov P	55.70	55.40	55.70	--
11/23	Markit US Services PMI	Nov P	55.00	54.40	54.80	--
11/23	Markit US Composite PMI	Nov P	--	54.40	54.90	--
11/26	Chicago Fed Nat Activity Index	Oct	--	--	17.00%	--
11/26	Dallas Fed Manf. Activity	Nov	25.00	--	29.40	--
11/27	House Price Purchase Index QoQ	3Q	--	--	1.10%	--
11/27	S&P CoreLogic CS 20-City YoY NSA	Sep	5.30%	--	5.49%	--
11/27	S&P CoreLogic CS US HPI YoY NSA	Sep	--	--	5.77%	--
11/27	Conf. Board Consumer Confidence	Nov	135.50	--	137.90	--
11/27	Conf. Board Present Situation	Nov	--	--	172.80	--
11/27	Conf. Board Expectations	Nov	--	--	114.60	--
11/28	MBA Mortgage Applications	11/23	--	--	-0.10%	--
11/28	Advance Goods Trade Balance	Oct	-\$77.0b	--	-\$76.0b	-\$76.3b
11/28	Wholesale Inventories MoM	Oct P	0.40%	--	0.40%	--
11/28	GDP Annualized QoQ	3Q S	3.50%	--	3.50%	--
11/28	Personal Consumption	3Q S	3.50%	--	4.00%	--
11/28	GDP Price Index	3Q S	1.70%	--	1.70%	--
11/28	Core PCE QoQ	3Q S	--	--	1.60%	--
11/28	New Home Sales	Oct	580k	--	553k	--
11/28	Richmond Fed Manufact. Index	Nov	16.00	--	15.00	--
11/29	Personal Income	Oct	0.40%	--	0.20%	--
11/29	Personal Spending	Oct	0.40%	--	0.40%	--
11/29	Real Personal Spending	Oct	0.20%	--	0.30%	--
11/29	PCE Deflator YoY	Oct	2.10%	--	2.00%	--
11/29	PCE Core YoY	Oct	1.90%	--	2.00%	--
11/29	Initial Jobless Claims	11/24	220k	--	224k	--
11/29	Continuing Claims	11/17	--	--	1668k	--
11/29	Bloomberg Consumer Comfort	11/25	--	--	61.30	--
11/29	Pending Home Sales NSA YoY	Oct	--	--	-3.40%	--
11/29	FOMC Meeting Minutes	11/8	--	--	--	--
11/30	Chicago Purchasing Manager	Nov	58.80	--	58.40	--

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	11.4	12.3	18.1	13.2	24.4
FH/FN 15y	7.3	7.9	7.1	8.6	12.0	21.5
GN 15y	10.8	10.0	12.7	14.6	14.3	13.7
FH/FN 20y	0.1	6.5	7.1	8.6	10.8	12.3
FH/FN 30y	4.9	5.6	5.9	6.3	8.6	11.4
GN 30y	10.2	7.7	8.6	10.0	16.0	18.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	112.76	(0.07)	112.44	110.08	111.22
Euro	1.14	(0.01)	1.15	1.17	1.19
Dollar Index	96.80	(0.13)	95.96	94.00	93.22
Major Stock Indices					
Dow Jones	24,321	(968)	25,317	24,834	23,526
S&P 500	2,640.2	(90.0)	2,755.9	2,724.4	2,597.1
NASDAQ	6,963.1	(296)	7,468.6	7,378.5	6,867.4
Commodities					
Gold	1,224.3	9.3	1,233.4	1,289.6	1,292.2
Crude Oil	51.17	(5.29)	66.43	71.84	58.02
Natural Gas	4.54	0.51	3.21	2.91	2.97
Wheat	506.0	0.5	509.0	531.0	422.8
Corn	361.0	-6.5	370.3	408.5	345.3

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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