

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257

If President Trump doesn't want to take economic advice from Fed Chairman Jerome Powell, maybe he will be more receptive to Jerome's counsel regarding public relations: don't fight with reporters at press conferences. Mr. Powell's next press conference won't be until December 19th where he will likely be explaining and defending the 9th rate hike of this cycle. If market participants needed affirmation of that event's likely occurrence, it was provided to them by the statement that J.P. and his minions issued yesterday upon the completion of the FOMC's penultimate meeting of the year.

No surprises came, and none were expected. But remember, surprises never are. Especially by those plying their journalistic trade in Saudi Arabia. It will take some big and unpleasant surprises to dissuade the committee from its *fait accompli*. The Fed's journey down the long and winding road to normalcy will continue uninterrupted, for now. Nevertheless, the bond rally and equity decline being seen today do not appear to be connected to anything the Fed did or didn't say.

Today's grapevine is abuzz with concerns over the continued slide in oil prices and the negative implications for domestic economic growth. A barrel of dinosaur wine from West Texas is on sale today for less than \$60! And after the yield on a two-year Treasury note got itself to a ten-year high of almost 3% yesterday, jittery investors have pushed it back to around 2.90%. Jittery about what?

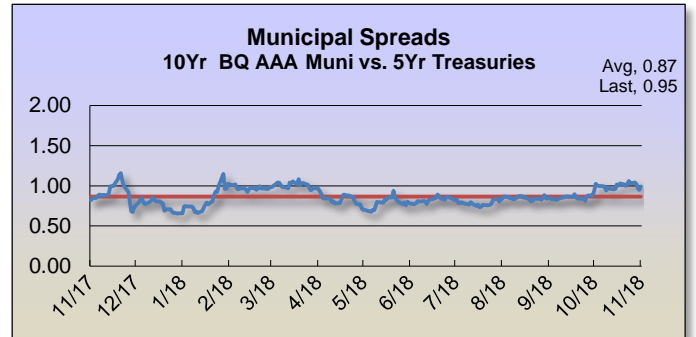
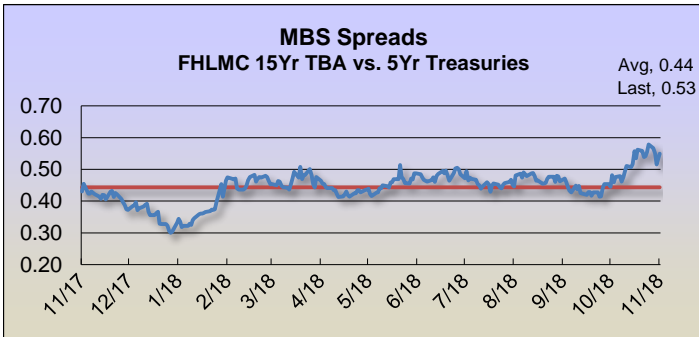
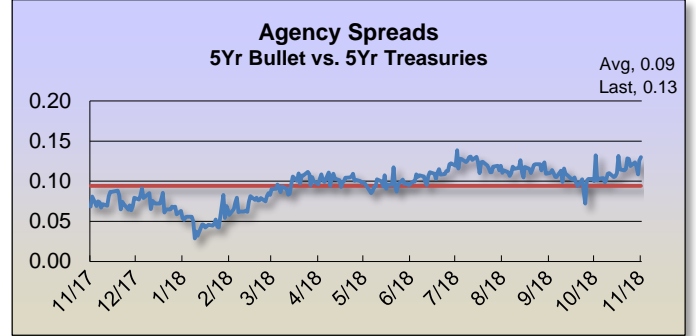
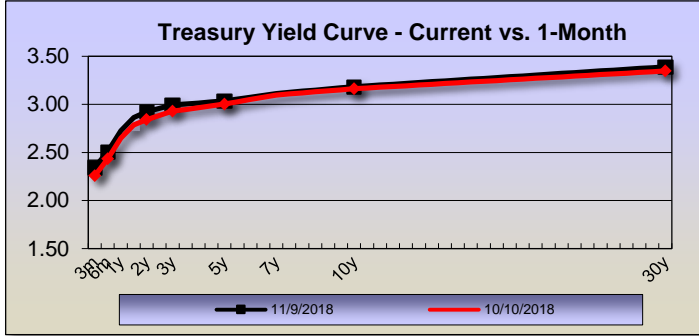
If lower oil prices mean lower gasoline prices, isn't that good for consumers? One might think so, but that's not what happened last month. According to today's Producer Price Index (PPI) report from the Bureau of Labor Statistics, gasoline prices jumped; maybe even leaped, by 7.6% last month and that helps explain the unexpected leap of 0.6% in overall Producer Prices. Perhaps more significantly, the increase was still 0.5% even after energy prices are stripped out. But, if investors were fearful about producer inflation becoming consumer inflation, they would be selling bonds, not buying them.

The nation seemed to survive the mid-term elections, but the GOP's loss of a majority in the House has now added a new and greater degree of uncertainty to the Administration's ability to carry out its policies; economic and otherwise. In the not too distant future, the President is going to have to negotiate a debt-limit increase with a Democratically controlled House of Representatives. That always goes well. Could this affect monetary policy? Should the Fed be factoring in more fiscal stimulus, or less?

We learned from the Federal Reserve on Wednesday that Consumer Credit in September grew by less than expected. Last month's almost \$11B increase sounds like a lot, but it's quite a bit less than the prior month's upwardly revised \$23B jump. Is the hyper-confident consumer becoming less so?

Despite the rise of the Wolverines to #3 in the rankings, the University of Michigan reported a slight dip in its Index of Consumer Sentiment from 98.6 to 98.3. Even though the sub-index of Current Conditions remains lofty, a dip in the component for Expectations dipped to 88.7 from 89.3. Do they know something the experts don't? The experts at the Bureau of Labor Statistics reported the reversal of a lengthy trend as its Job Openings and Labor Turnover Survey (JOLTS) reported a *decline* in the number of new, unfilled employment positions. On a more positive note, the "quit" rate remains pretty high and that means that people are feeling so good about finding a better job, they quit the one they have. That's their story and they're sticking to it.

There's no quit in today's bond rally, though, and that has pushed the Ten-Year's yield back below 3.20%. Most of the nation's financial institutions, and the Baker Group, will be closed on Monday in observance of Veteran's Day. 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	2.34	0.03	2.24	1.88	1.23	2yr	2.98	3.13	2.94	3.13	26.00	2Yr	1.94	1.94	1.94	-	
6mo	2.51	0.01	2.42	2.05	1.35	3yr	3.05	3.17	3.05	3.25	32.33	3Yr	2.10	2.11	2.11	2.10	
1yr	2.73	0.05	2.62	2.25	1.52	5yr	3.17	3.18	3.26	3.47	45.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.92	0.02	2.89	2.53	1.64	7yr	3.28	3.20	3.49	3.71	61.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.99	0.02	2.98	2.68	1.76	10yr	3.46	3.25	3.85	4.10	79.00	10Yr	2.57	2.62	2.69	2.72	
5yr	3.04	0.00	3.06	2.84	2.01	15yr	3.58	3.31	4.27	4.54	102.00	December TBA MBS					
7yr	3.11	(0.02)	3.15	2.96	2.21	20yr	3.70	3.32	4.59	4.89	92.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.18	(0.03)	3.21	3.01	2.34	25yr	3.82	3.31	4.70	5.01	94.00		2.00	3.63	5.0y		
30yr	3.39	(0.06)	3.37	3.16	2.82	30yr	3.82	3.30	4.82	5.13	96.00		2.50	3.46	5.2y		
													3.00	3.38	5.6y	3.78	9.9y
													3.50	3.53	5.2y	3.91	9.9y
												4.00			4.06	8.8y	
												4.50			4.13	7.0y	

* 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	2.21	(0.01)	2.16	1.72	--
1 Month LIBOR	2.32	--	2.28	1.93	1.24
3 Month LIBOR	2.60	0.04	2.41	2.37	1.40
6 Month LIBOR	2.84	0.04	2.62	2.52	1.60
1 Year LIBOR	3.13	0.04	2.96	2.78	1.87
6 Month CD	2.86	0.05	2.61	2.50	1.59
1 Year CMT	2.74	0.07	2.64	2.26	1.53
REPO O/N	2.25	--	2.24	1.73	1.19
REPO 1Wk	2.24	--	2.22	1.78	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	2.68	2.66
6mo	2.67	2.77	2.80
1yr	3.01	2.97	3.06
2yr	3.16	3.33	3.39
3yr	3.23	3.42	3.47
4yr	3.29	3.49	3.54
5yr	3.33	3.54	3.57
7yr	3.50	3.75	3.67
10yr	3.70	3.96	3.86
5yr Am	3.26		3.50
10yr Am	3.54		3.76

Fed Fund Futures	
Maturity	Rate
Nov-18	2.205
Dec-18	2.290
Jan-19	2.400
Feb-19	2.415
Mar-19	2.480
Apr-19	2.590
May-19	2.610
Jun-19	2.665
Jul-19	2.750
Aug-19	2.775
Sep-19	2.810

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/05	Markit US Services PMI	Oct F	54.60	54.80	54.70	--
11/05	Markit US Composite PMI	Oct F	--	54.90	54.80	--
11/05	ISM Non-Manufacturing Index	Oct	59.00	60.30	61.60	--
11/06	JOLTS Job Openings	Sep	7085	7009	7136	7293
11/07	MBA Mortgage Applications	11/2	--	-4.00%	-2.50%	--
11/07	Consumer Credit	Sep	\$15.000b	\$10.923b	\$20.078b	\$22.877b
11/08	Initial Jobless Claims	11/3	214k	214k	214k	215k
11/08	Continuing Claims	10/27	1634k	1623k	1631k	--
11/08	Bloomberg Consumer Comfort	11/4	--	61.30	60.30	--
11/08	Mortgage Delinquencies	3Q	--	4.47%	4.36%	--
11/08	MBA Mortgage Foreclosures	3Q	--	0.99%	1.05%	--
11/08	FOMC Rate Decision (Upper Bound)	11/8	2.25%	2.25%	2.25%	--
11/08	FOMC Rate Decision (Lower Bound)	11/8	2.00%	2.00%	2.00%	--
11/08	Interest Rate on Excess Reserves	11/9	2.20%	2.20%	2.20%	--
11/09	PPI Final Demand YoY	Oct	2.50%	2.90%	2.60%	--
11/09	PPI Ex Food and Energy YoY	Oct	2.30%	2.60%	2.50%	--
11/09	PPI Ex Food, Energy, Trade YoY	Oct	--	2.80%	2.90%	--
11/09	Wholesale Inventories MoM	Sep F	0.30%	0.40%	0.30%	--
11/09	Wholesale Trade Sales MoM	Sep	0.40%	0.20%	0.80%	0.70%
11/09	U. of Mich. Current Conditions	Nov P	114.90	113.20	113.10	--
11/09	U. of Mich. 1 Yr Inflation	Nov P	--	2.80%	2.90%	--
11/13	NFIB Small Business Optimism	Oct	108.00	--	107.90	--
11/13	Monthly Budget Statement	Oct	-\$116.5b	--	\$119.1b	--
11/14	MBA Mortgage Applications	11/9	--	--	-4.00%	--
11/14	CPI YoY	Oct	2.50%	--	2.30%	--
11/14	CPI Ex Food and Energy YoY	Oct	0.02	--	0.02	--
11/14	CPI Index NSA	Oct	252.79	--	252.44	--
11/14	CPI Core Index SA	Oct	258.93	--	258.44	--
11/14	Real Avg Weekly Earnings YoY	Oct	--	--	1.10%	0.80%
11/14	Real Avg Hourly Earning YoY	Oct	--	--	0.50%	--
11/15	Empire Manufacturing	Nov	19.00	--	21.10	--
11/15	Philadelphia Fed Business Outlook	Nov	20.60	--	22.20	--
11/15	Retail Sales Ex Auto and Gas	Oct	0.40%	--	0.00%	--
11/15	Retail Sales Control Group	Oct	0.40%	--	0.50%	--
11/15	Import Price Index MoM	Oct	0.10%	--	0.50%	--
11/15	Import Price Index ex Petroleum MoM	Oct	0.00%	--	0.00%	--
11/15	Import Price Index YoY	Oct	--	--	3.50%	--
11/15	Export Price Index YoY	Oct	--	--	2.70%	--
11/15	Initial Jobless Claims	11/10	215k	--	214k	--
11/15	Continuing Claims	11/3	--	--	1623k	--
11/15	Bloomberg Consumer Comfort	11/11	--	--	61.30	--
11/15	Business Inventories	Sep	0.30%	--	0.50%	--
11/16	Capacity Utilization	Oct	78.20%	--	78.10%	--
11/16	Manufacturing (SIC) Production	Oct	0.30%	--	0.20%	--
11/16	Kansas City Fed Manf. Activity	Nov	--	--	8.00	--
11/16	Total Net TIC Flows	Sep	--	--	\$108.2b	--
11/16	Net Long-term TIC Flows	Sep	--	--	\$131.8b	--

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	11.1	12.0	17.7	13.1	23.2
FH/FN 15y	7.2	7.9	6.9	9.0	11.6	21.3
GN 15y	10.8	9.9	12.4	14.4	14.1	13.4
FH/FN 20y	0.1	6.5	6.8	8.2	9.9	11.8
FH/FN 30y	4.8	5.6	5.8	6.1	7.7	11.1
GN 30y	10.2	7.6	8.4	9.5	15.1	18.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	113.77	0.57	112.96	109.74	113.47
Euro	1.13	(0.00)	1.15	1.19	1.16
Dollar Index	96.77	0.23	95.67	93.04	94.44
Major Stock Indices					
Dow Jones	26,016	745	26,431	24,543	23,462
S&P 500	2,785.5	62.5	2,880.3	2,697.8	2,584.6
NASDAQ	7,425.6	69	7,738.0	7,339.9	6,750.1
Commodities					
Gold	1,210.8	(22.5)	1,187.2	1,313.0	1,287.5
Crude Oil	60.38	(2.76)	74.96	71.14	57.17
Natural Gas	3.74	0.46	3.27	2.74	3.20
Wheat	504.8	-4.0	515.0	514.5	429.0
Corn	371.3	--	364.5	394.8	341.5

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

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: 11/09/2018 12:48PM