

Baker Market Update: Week in Review

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Gift-givers still have eleven shopping days until Christmas, but lawmakers are only left with a week to produce a workable spending bill if a partial government shutdown is to be avoided next Friday. This is just one of several issues for investors to contemplate as the FOMC prepares for its final meeting of the year amid signs of a global-growth slowdown and an unclear resolution to the China-U.S. trade war; the tone of which seems to vacillate between positive and negative on an hourly basis.

Earlier this week, Theresa May's hold on her job as British Prime Minister was a moment-to-moment condition that she eventually grasped by prevailing in a Parliamentary vote of confidence. She, and the United Kingdom, are certainly not out of the woods, nor are they yet out of the European Union as her plan to exit the E.U. is far from final and continues to be assailed by critics from all sides. The E.U. itself has been assailed by new, and lower, growth estimates for the next couple of years. The European Central Bank (ECB) just lowered its 2019 GDP forecast from 2% to 1.9% with just a 1.7% growth rate expected for 2020. In the face of this anticipated retrenchment, it may seem odd to some that Mario Draghi, head of the ECB, chose this moment to end his version of quantitative easing. Even as he made yesterday's announcement, his remarks included the recognition that the need for more monetary stimulus is still present, and will continue in the form of reinvested cash flow from the central bank's previous bond purchases.

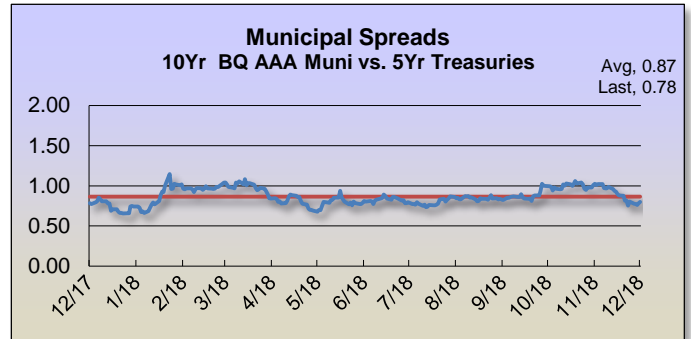
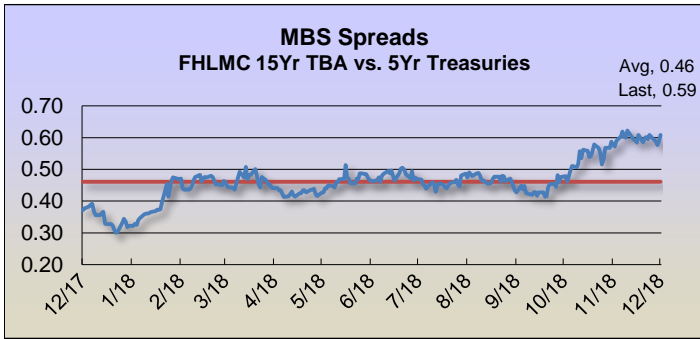
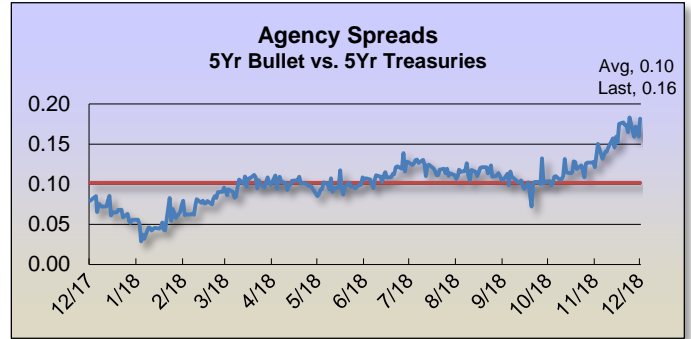
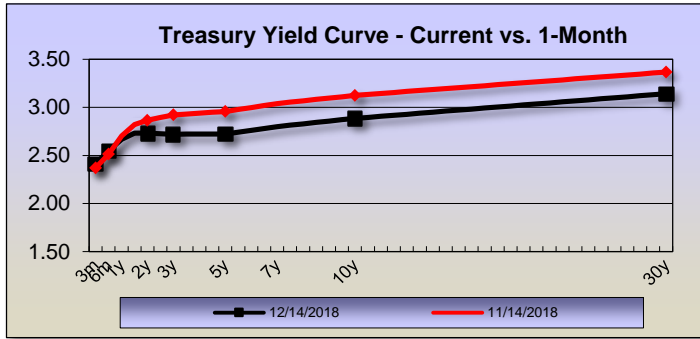
Meanwhile, American consumers have been making a few purchases of their own and we learned this morning that Retail Sales rose, about as expected, by 0.2% in November. What wasn't expected was the big revision to October's report that boosted that month's sales from 0.8% to 1.1%. Without autos and gasoline, November's sales came in slightly better than expected with a 0.5% jump and an even bigger revision for October from 0.3% to 0.7%. So, the future may be a little cloudy, but at least the past is getting brighter. The brightness of China's growth prospects, dimmed in part by the effects of the President's tariffs, was not helped by this week's illumination that both Industrial Production and Retail Sales were significant "misses" for the Chinese economy last month. Can observers conclude that China's announcement to reduce its own taxes on American cars along with its recent purchase of a bunch of American soybeans is a capitulation on the part of President Xi? It seems that concluding anything about this international back-and-forth is risky business.

In a recent Wall Street Journal poll, nearly half of the economists surveyed cited the Sino-American trade dispute as the greatest risk to the economy for 2019. President Trump recently stated that he thought the Federal Reserve was the economy's biggest risk because, in his view, higher rates will do more harm than good. Only time will tell.

The President's comments aside, Fed Chairman Powell will still probably tell us all next Thursday that the FOMC has voted to bump its target for Fed Funds by a quarter-point to a 2.25%-2.50% range. The Fed will remain data-driven, not Administration-driven, and even though the data is starting to look a little tarnished, it's still shiny enough to get one more rate hike out of the Committee this year.

The darkening patina of recent data includes a decline in the National Federation of Independent Businesses (NFIB) Optimism Index from 107.4 to 104.8. That's a pretty big drop. And if economic overheating is needed to justify further increases next year, this week's inflation data did not strongly bolster that argument. The Producer Price Index (PPI) fell from 2.9% to 2.5% year-over-year and without food and energy, experienced only a slight rise of 0.1% to 2.7%. The Consumer Price Index (CPI) was unchanged at 2.2% year-over-year, and factoring out food & energy, still only rose by the widely expected 0.2% for November, bringing the year-over-year core rate to the same 2.2% as the headline rate. And if tariffs are requiring Americans to pay more for what is bought from other countries, it's not showing up in the Import Price Index. That measure plummeted by 1.6% last month and even when falling petroleum prices are removed from the calculation, Import Prices, ex-oil, still fell by 0.3%. Nothing in this week's data points to overheating and let's not forget that the Fed's favored inflation measure, the Personal Consumption Expenditures Index (PCE), recently fell below the Fed's 2% goal. A quick check of some key commodities reveals that, for the year, lumber is down 28%, copper is off 16%, and the price of dinosaur wine has fallen about 13%. That may sound like statistical cherry-picking to some, but cherry prices are down, too!

Still, darkening data brings a renewed brightness to bond prices and this morning's little rally in the Treasury market has brought the Ten-Year's yield down below 2.90% with the Two-Year slightly above 2.70%. That's about as curvy as the road between Lubbock and Amarillo. And the stock market? Well, today's meltdown in equity prices makes Interstate 27 look positively scenic, so quit checking your 401k. Our economy needs for everyone to go Christmas shopping; only eleven days left. Have a great weekend, and if you're going to the mall, be extra-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	2.41	0.02	2.38	1.93	1.31	2yr	2.78	2.88	2.56	2.73	13.00	2Yr	1.94	1.94	1.94	-
6mo	2.55	0.01	2.52	2.06	1.47	3yr	2.80	2.86	2.65	2.82	20.00	3Yr	2.10	2.11	2.11	2.10
1yr	2.67	(0.01)	2.71	2.31	1.68	5yr	2.86	2.84	2.84	3.02	34.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.73	0.02	2.87	2.56	1.81	7yr	2.99	2.86	3.05	3.25	49.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.72	0.01	2.92	2.69	1.92	10yr	3.20	2.93	3.36	3.58	63.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.72	0.03	2.96	2.81	2.14	15yr	3.34	3.00	3.79	4.04	92.00	January TBA MBS				
7yr	2.80	0.04	3.04	2.90	2.27	20yr	3.48	3.02	4.17	4.44	88.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.89	0.04	3.13	2.94	2.35	25yr	3.61	3.01	4.31	4.58	91.00	2.00	3.28	4.9y		
30yr	3.14	0.00	3.37	3.05	2.71	30yr	3.00	3.00	4.44	4.72	94.00	2.50	3.15	5.1y		
												3.00	3.18	5.5y	3.51	9.7y
												3.50	3.32	5.1y	3.66	9.3y
												4.00			3.79	7.2y
												4.50			3.87	6.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.25	--	2.25	2.00	1.50
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	5.00	4.50
Sec. O.N. Finance	2.21	(0.13)	2.20	1.71	--
1 Month LIBOR	2.46	0.07	2.31	2.07	1.48
3 Month LIBOR	2.79	0.02	2.62	2.34	1.59
6 Month LIBOR	2.90	0.01	2.86	2.50	1.76
1 Year LIBOR	3.11	--	3.13	2.77	2.04
6 Month CD	2.87	--	2.96	2.49	1.74
1 Year CMT	2.69	--	2.72	2.35	1.68
REPO O/N	2.29	0.16	2.31	1.80	1.53
REPO 1Wk	2.34	0.10	2.24	2.00	1.45
CoF Federal	2.132	--	2.070	1.811	1.472
11th D. CoF (Oct)	1.079	--	1.018	0.895	0.737

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.60	2.72	2.73
6mo	2.71	2.81	2.83
1yr	2.90	2.92	3.06
2yr	2.94	3.11	3.17
3yr	2.96	3.15	3.20
4yr	3.00	3.19	3.24
5yr	3.03	3.23	3.26
7yr	3.23	3.47	3.38
10yr	3.42	3.69	3.58
5yr Am	3.04		3.23
10yr Am	3.27		3.48

Fed Fund Futures		
Maturity	Rate	
Dec-18	2.270	
Jan-19	2.385	
Feb-19	2.400	
Mar-19	2.430	
Apr-19	2.470	
May-19	2.495	
Jun-19	2.515	
Jul-19	2.545	
Aug-19	2.565	
Sep-19	2.580	
Oct-19	2.595	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/10	JOLTS Job Openings	Oct	7100.00	7079.00	7009.00	6960.00
12/11	NFIB Small Business Optimism	Nov	107.00	104.80	107.40	--
12/11	PPI Final Demand YoY	Nov	2.50%	2.50%	2.90%	--
12/11	PPI Ex Food and Energy YoY	Nov	2.50%	2.70%	2.60%	--
12/11	PPI Ex Food, Energy, Trade YoY	Nov	--	2.80%	2.80%	--
12/12	MBA Mortgage Applications	12/7	--	1.60%	2.00%	--
12/12	CPI YoY	Nov	2.20%	2.20%	2.50%	--
12/12	CPI Ex Food and Energy YoY	Nov	2.20%	2.20%	2.10%	--
12/12	CPI Index NSA	Nov	252.01	252.04	252.89	--
12/12	CPI Core Index SA	Nov	259.41	259.48	258.94	--
12/12	Real Avg Weekly Earnings YoY	Nov	--	0.50%	0.90%	0.80%
12/12	Real Avg Hourly Earning YoY	Nov	--	0.80%	0.70%	0.60%
12/13	Import Price Index YoY	Nov	1.30%	0.70%	3.50%	3.30%
12/13	Export Price Index YoY	Nov	--	1.80%	3.10%	--
12/13	Initial Jobless Claims	12/8	226k	206k	231k	233k
12/13	Continuing Claims	12/1	1649k	1661k	1631k	1636k
12/13	Bloomberg Consumer Comfort	12/9	--	59.40	60.30	--
12/13	Monthly Budget Statement	Nov	-\$199.0b	-\$204.9b	-\$100.5b	--
12/14	Retail Sales Ex Auto and Gas	Nov	0.40%	0.50%	0.30%	0.70%
12/14	Retail Sales Control Group	Nov	0.40%	0.90%	0.30%	0.70%
12/14	Industrial Production MoM	Nov	0.30%	0.60%	0.10%	-0.20%
12/14	Manufacturing (SIC) Production	Nov	0.30%	0.00%	0.30%	-0.10%
12/14	Capacity Utilization	Nov	78.60%	78.50%	78.40%	78.10%
12/14	Markit US Composite PMI	Dec P	--	53.60	54.70	--
12/14	Business Inventories	Oct	0.60%	0.60%	0.30%	0.50%
12/17	Empire Manufacturing	Dec	20.00	--	23.30	--
12/17	NAHB Housing Market Index	Dec	61.00	--	60.00	--
12/17	Total Net TIC Flows	Oct	--	--	-\$29.1b	--
12/17	Net Long-term TIC Flows	Oct	--	--	\$30.8b	--
12/18	Housing Starts	Nov	1230k	--	1228k	--
12/18	Building Permits	Nov	1265k	--	1263k	1265k
12/19	Current Account Balance	3Q	-\$124.5b	--	-\$101.5b	--
12/19	Existing Home Sales	Nov	5.20m	--	5.22m	--
12/19	FOMC Rate Decision (Upper Bound)	12/19	2.50%	--	2.25%	--
12/19	FOMC Rate Decision (Lower Bound)	12/19	2.25%	--	2.00%	--
12/19	Interest Rate on Excess Reserves	12/20	2.40%	--	2.20%	--
12/20	Initial Jobless Claims	12/15	219k	--	206k	--
12/20	Continuing Claims	12/8	--	--	1661k	--
12/20	Bloomberg Consumer Comfort	12/16	--	--	59.40	--
12/20	Bloomberg Economic Expectations	Dec	--	--	56.00	--
12/20	Leading Index	Nov	0.00%	--	0.10%	--
12/21	GDP Annualized QoQ	3Q T	3.50%	--	3.50%	--
12/21	Personal Consumption	3Q T	3.60%	--	3.60%	--
12/21	GDP Price Index	3Q T	1.70%	--	1.70%	--
12/21	Core PCE QoQ	3Q T	1.50%	--	1.50%	--
12/21	Durables Ex Transportation	Nov P	0.30%	--	0.20%	--
12/21	Cap Goods Ship Nondef Ex Air	Nov P	0.20%	--	0.30%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.4	11.8	13.8	14.2	18.2	31.0
FH/FN 15y	5.7	5.9	6.7	7.9	13.2	15.0
GN 15y	6.5	9.9	11.0	12.3	12.4	11.8
FH/FN 20y		5.4	6.8	7.9	8.3	9.7
FH/FN 30y	1.5	4.8	3.8	3.6	4.7	7.5
GN 30y	9.2	9.2	11.8	14.3	13.0	13.0
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	11.8	12.5	18.6	12.9	24.9
FH/FN 15y	7.4	8.0	7.3	9.3	12.3	21.3
GN 15y	9.3	10.0	13.0	14.8	14.5	14.0
FH/FN 20y	0.1	6.7	7.5	9.5	12.6	13.3
FH/FN 30y	4.9	5.6	6.1	6.7	10.4	12.6
GN 30y	9.7	7.8	8.9	10.8	16.0	19.4

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	113.44	0.75	113.63	110.63	112.39
Euro	1.13	(0.01)	1.13	1.16	1.18
Dollar Index	97.54	1.03	96.80	94.88	93.49
Major Stock Indices					
Dow Jones	24,325	(64)	25,081	25,175	24,509
S&P 500	2,628.4	(4.6)	2,701.6	2,782.5	2,652.0
NASDAQ	7,020.3	51	7,136.4	7,761.0	6,856.5
Commodities					
Gold	1,234.9	(11.9)	1,210.1	1,304.0	1,253.8
Crude Oil	51.61	(1.00)	56.25	66.89	57.04
Natural Gas	3.89	(0.60)	4.84	2.97	2.68
Wheat	527.8	22.5	507.8	516.5	392.3
Corn	379.0	5.0	367.0	363.0	336.3

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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