

Baker Market Update: Week in Review

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Human nature being what it is, humans can sometimes go looking for problems where perhaps none exist. In last week's Jobs Report from the Bureau of Labor Statistics (BLS) it might have seemed problematic that 6.3 million people were unemployed. This week, the selfsame BLS reported in its Job Openings and Labor Turnover Survey (JOLTS) that employers had 6.55 million openings just waiting to be filled. What's the problem? Do these people not have cell phones?

And then, there's the "problem" with inflation. The "problem", as described by our policymakers, is that they think inflation is too low. Really? Let's see a show of hands from everyone who wants to pay higher prices. Well, it looks like Jerome has *his* hand up. Maybe it's because the 0.2% monthly rise in the core Producer Price Index last month wasn't quite high enough for him. Likewise, the 2.3% year-over-year price rise was disappointingly low. Mr. Powell and his minions know that if producers of goods don't have rising production costs, then the consumers of those goods, that would be everyone, won't have to pay higher prices for them.

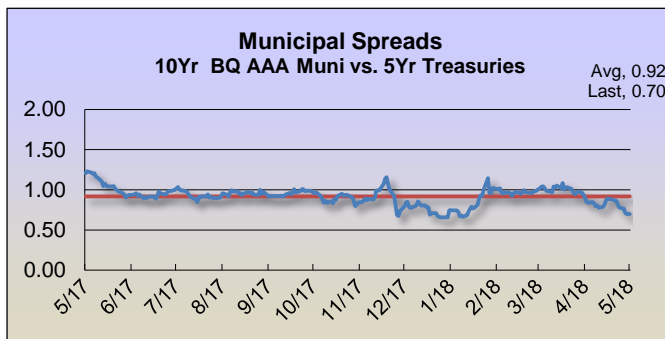
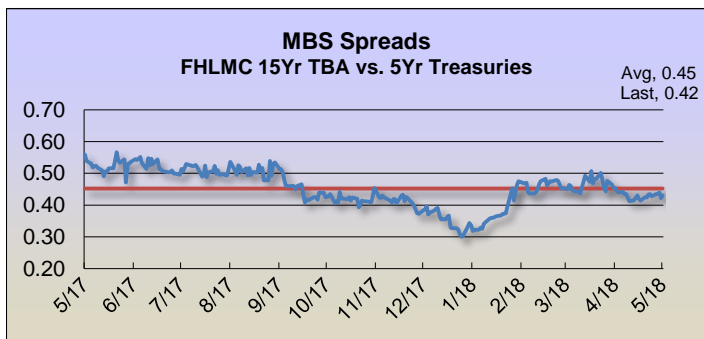
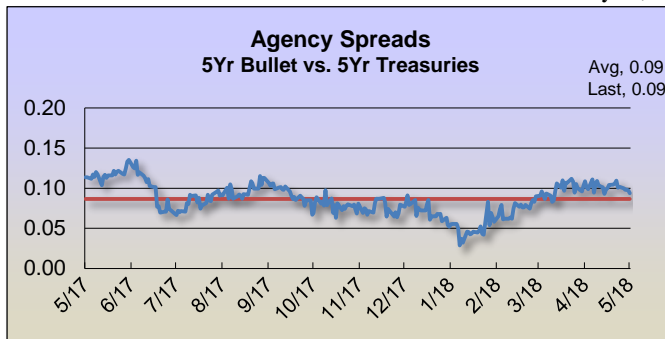
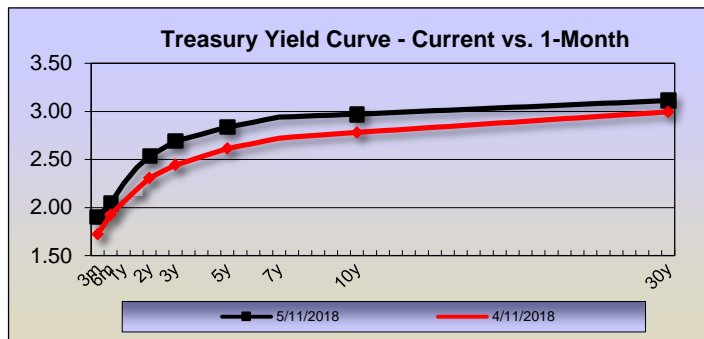
And that, according to Chairman Powell, is a problem. There are others who think the real problem might just be Chairman Powell. While no one liked the fact that the Consumer Price Index without Food & Energy rose by 2.1% in April, the reasons for that dissatisfaction were varied. Our policymakers didn't like it because it was too low; consumers didn't like it because nobody wants to pay any more for their stuff than they have to. Ever. As readers may recall, it was July of 1996 when then Chairman, Alan Greenspan, disclosed that in his view, the level of inflation that supports maximum sustainable growth is zero. Zero. So, that begs the obvious question; how did the Fed come up with its arbitrary target of 2%? Well, arbitrarily of course! Obvious questions can sometimes have obvious answers.

If one really wants to see higher inflation readings, the most obvious place to look might be the Import Price Index. That measure rose by 3.3% year-over-year, but was still a disappointment because the experts were expecting 3.9%. The experts might not have noticed the U.S. Dollar's recent appreciation. It's always something. But, the miniscule rise of just 0.2% in Real (inflation adjusted) Average Hourly Earnings was almost nothing. Not to worry, though, your Central Bank is on the case; working diligently to completely erase any incidental gain in purchasing power one might have accidentally picked up.

And was it an accident that Jamie Dimon, the biggest of the big Wall Street bankers, let it slip that he believed the Ten Year's yield would get to 4%? Is it an accident that Mr. Dimon works for "JP" Morgan and that those are the same initials as our nascent Chairman? Could their collusion be more obvious?

And what about the role of the National Federation of Independent Businesses (NFIB)? Is it a coincidence that only 1% of NFIB survey respondents cited inflation was their biggest problem? Is it a coincidence that if one rearranges the initials for the NFIB, one comes up with FBI? (forget about the "N") Well, there are no such thing as coincidences, and the bond market knows it!

So here we are, with a more-than-fully-employed economy, paltry wage growth, a negative "real" Fed Funds rate, a modicum of late cycle inflation, a big debt-financed tax cut, and the Ten-Year continues to trade below 3%. Do the JP's have cards they're not showing? One suspects not. More likely, they are merely experiencing another characteristic of human nature; wishful thinking. And this Sunday, don't forget to wish your Mom a Happy Mothers Day! Until next week, be care 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	1.90	0.07	1.72	1.22	0.88	2yr	2.60	2.76	2.59	2.76	25.00	2Yr	1.94	1.94	1.94	-
6mo	2.04	0.02	1.93	1.36	1.03	3yr	2.72	2.86	2.67	2.85	32.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.25	0.02	2.06	1.53	1.12	5yr	2.92	2.93	2.87	3.05	47.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.53	0.04	2.31	1.66	1.34	7yr	3.07	2.96	3.15	3.35	52.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.69	0.06	2.44	1.79	1.53	10yr	3.25	3.01	3.42	3.64	74.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.84	0.05	2.61	2.05	1.92	15yr	3.38	3.05	3.75	3.99	91.00	June TBA MBS				
7yr	2.94	0.04	2.72	2.26	2.20	20yr	3.50	3.06	3.99	4.25	78.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.97	0.02	2.78	2.40	2.39	25yr	3.62	3.05	4.07	4.34	80.00	2.00	3.19	5.1y		
30yr	3.11	(0.01)	3.00	2.88	3.03	30yr		3.02	4.16	4.43	82.00	2.50	3.11	5.3y		
												3.00	3.19	5.1y	3.48	9.9y
												3.50	3.05	2.9y	3.63	9.1y
												4.00			3.71	7.4y
												4.50			3.72	6.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	--	1.75	1.25	1.00
Primary Discount	2.25	--	2.25	1.75	1.50
2ndary Discount	2.75	--	2.75	2.25	2.00
Prime Rate	4.75	--	4.75	4.25	4.00
Sec. O.N. Finance	1.73				
1 Month LIBOR	1.92	--	1.89	1.25	0.99
3 Month LIBOR	2.36	--	2.34	1.41	1.18
6 Month LIBOR	2.52	--	2.47	1.61	1.44
1 Year LIBOR	2.77	--	2.70	1.88	1.79
6 Month CD	2.45	--	2.40	1.59	1.56
1 Year CMT	2.27	0.03	2.09	1.54	1.13
REPO O/N	1.82	0.04	1.83	1.15	0.88
REPO 1Wk	1.78	--	1.79	1.20	0.74
CoF Federal	1.749	--	1.664	1.452	1.233
11th D. CoF (Mar)	0.814	--	0.816	0.729	0.583

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.08	2.21	2.06	2.19	May-18	1.703
6mo	2.22	2.33	2.22	2.34	Jun-18	1.845
1yr	2.55	2.53	2.49	2.61	Jul-18	1.945
2yr	2.74	2.91	2.75	2.94	Aug-18	1.960
3yr	2.89	3.08	2.97	3.10	Sep-18	1.980
4yr	2.98	3.19	3.07	3.20	Oct-18	2.145
5yr	3.03	3.24	3.12	3.23	Nov-18	2.160
7yr	3.23	3.48	3.33	3.37	Dec-18	2.210
10yr	3.43	3.70	3.53	3.57	Jan-19	2.285
5yr Am	2.92		2.99	3.16	Feb-19	2.310
10yr Am	3.26		3.33	3.46	Mar-19	2.350

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
05/07	Consumer Credit	Mar	\$15.200b	\$11.622b	\$10.601b	\$13.639b
05/08	NFIB Small Business Optimism	Apr	104.50	104.80	104.70	--
05/08	JOLTS Job Openings	Mar	6100.00	6550.00	6052.00	6078.00
05/09	MBA Mortgage Applications	5/4	--	-0.40%	-2.50%	--
05/09	PPI Final Demand YoY	Apr	2.80%	2.60%	3.00%	--
05/09	PPI Ex Food and Energy YoY	Apr	2.40%	2.30%	2.70%	--
05/09	PPI Ex Food, Energy, Trade YoY	Apr	--	2.50%	2.90%	--
05/09	Wholesale Inventories MoM	Mar F	0.50%	0.30%	0.50%	--
05/09	Wholesale Trade Sales MoM	Mar	--	0.30%	4.00%	1.10%
05/10	Initial Jobless Claims	5/5	219k	211k	211k	--
05/10	Continuing Claims	4/28	1800k	1790k	1756k	1760k
05/10	CPI YoY	Apr	2.50%	2.50%	2.40%	--
05/10	CPI Ex Food and Energy YoY	Apr	2.20%	2.10%	2.10%	--
05/10	CPI Index NSA	Apr	250.70	250.55	249.55	--
05/10	CPI Core Index SA	Apr	--	256.45	256.20	--
05/10	Real Avg Weekly Earnings YoY	Apr	--	0.40%	0.90%	--
05/10	Real Avg Hourly Earning YoY	Apr	--	0.20%	0.40%	0.30%
05/10	Bloomberg Consumer Comfort	5/6	--	55.80	56.50	--
05/10	Monthly Budget Statement	Apr	\$212.0b	\$214.3b	-\$208.7b	--
05/11	Import Price Index MoM	Apr	0.50%	0.30%	0.00%	-0.20%
05/11	Import Price Index ex Petroleum MoM	Apr	0.20%	0.10%	0.10%	0.00%
05/11	Import Price Index YoY	Apr	3.90%	3.30%	3.60%	3.30%
05/11	Export Price Index MoM	Apr	0.40%	0.60%	0.30%	--
05/11	Export Price Index YoY	Apr	--	3.80%	3.40%	--
05/11	U. of Mich. Current Conditions	May P	--	113.30	114.90	--
05/11	U. of Mich. Expectations	May P	--	89.50	88.40	--
05/11	U. of Mich. 1 Yr Inflation	May P	--	2.80%	2.70%	--
05/14	Mortgage Delinquencies	1Q	--	--	5.17%	--
05/14	MBA Mortgage Foreclosures	1Q	--	--	1.19%	--
05/15	Empire Manufacturing	May	15.00	--	15.80	--
05/15	Retail Sales Ex Auto and Gas	Apr	0.40%	--	0.30%	--
05/15	Retail Sales Control Group	Apr	0.40%	--	0.40%	--
05/15	Business Inventories	Mar	0.20%	--	0.60%	--
05/15	NAHB Housing Market Index	May	69.00	--	69.00	--
05/15	Total Net TIC Flows	Mar	--	--	\$44.7b	--
05/15	Net Long-term TIC Flows	Mar	--	--	\$49.0b	--
05/16	MBA Mortgage Applications	5/11	--	--	-0.40%	--
05/16	Housing Starts	Apr	1325k	--	1319k	--
05/16	Building Permits	Apr	1347k	--	1354k	1379k
05/16	Industrial Production MoM	Apr	0.60%	--	0.50%	--
05/16	Manufacturing (SIC) Production	Apr	0.60%	--	0.10%	--
05/16	Capacity Utilization	Apr	78.40%	--	78.00%	--
05/17	Initial Jobless Claims	5/12	215k	--	211k	--
05/17	Continuing Claims	5/5	1775k	--	1790k	--
05/17	Philadelphia Fed Business Outlook	May	21.00	--	23.20	--
05/17	Bloomberg Consumer Comfort	5/13	--	--	55.80	--
05/17	Leading Index	Apr	0.40%	--	0.30%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	12.6	14.0	16.1	24.6	30.2
FH/FN 15y	5.2	5.4	6.4	13.0	14.9	18.3
GN 15y	7.4	10.9	12.4	12.1	12.8	12.8
FH/FN 20y		5.6	7.1	8.4	10.2	12.5
FH/FN 30y	3.0	4.5	3.1	4.9	8.4	13.7
GN 30y	6.4	9.0	10.9	14.0	14.2	15.9
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	11.4	12.1	17.2	19.4	21.5
FH/FN 15y	7.5	8.0	8.8	11.2	15.8	25.0
GN 15y	7.0	10.1	11.9	13.9	12.8	12.6
FH/FN 20y	3.1	6.7	7.7	9.4	11.4	13.7
FH/FN 30y	4.9	5.7	5.9	7.0	9.8	12.4
GN 30y	5.7	7.9	8.9	11.0	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.42	0.30	106.79	113.62	113.86
Euro	1.19	(0.00)	1.24	1.17	1.09
Dollar Index	92.59	0.02	89.57	94.39	99.62
Major Stock Indices					
Dow Jones	24,818	556	24,189	23,422	20,919
S&P 500	2,729.1	65.6	2,642.2	2,582.3	2,394.4
NASDAQ	7,406.0	196	7,069.0	6,750.9	6,116.0
Commodities					
Gold	1,321.6	6.9	1,356.5	1,274.2	1,224.2
Crude Oil	71.21	1.49	66.82	56.74	47.83
Natural Gas	2.81	0.10	2.68	3.21	3.38
Wheat	507.8	-32.8	492.0	431.5	424.0
Corn	389.8	-9.0	387.0	343.5	360.5

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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