

Baker Market Update: Week in Review

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Figures don't lie, we've all been told, and this morning's figures from the Bureau of Labor Statistics (BLS) tell us that the nation's Unemployment Rate fell by two-tenths last month to 3.9%. In technical terms, that's pretty low. One might think that a flood of new jobs must have been created in order to bring the rate down that much in just one month. And besides, there wasn't supposed to be that much slack left in the labor markets anyway. Right? Well, here's where the magic of statistics kicks in. The rise of just 164k in Non-Farm Payrolls would not have been enough to move the needle were it not for the exodus of 236k from the civilian labor force. So, go figure that.

And while you're figuring, maybe you can figure out why this supposedly tight-as-a-drum labor supply hasn't been able to drum up much wage growth. Average Hourly Earnings rose by just 0.1% last month and the year-over-year growth rate of 2.6% was unchanged after a downward revision to last month's result. To many, that's a head-scratcher, but should it be? After all there are almost 96M people that *could* be in the labor force, but aren't. And, that number gets bigger every month. But, that doesn't fit the narrative of "no slack", so we need to ignore that for now.

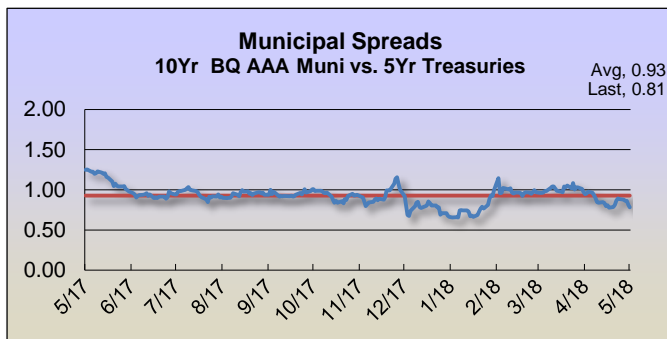
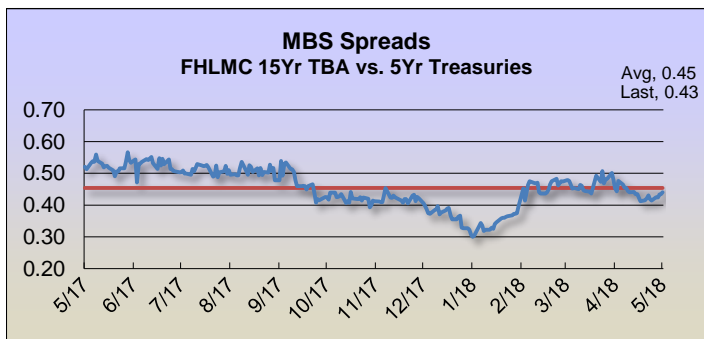
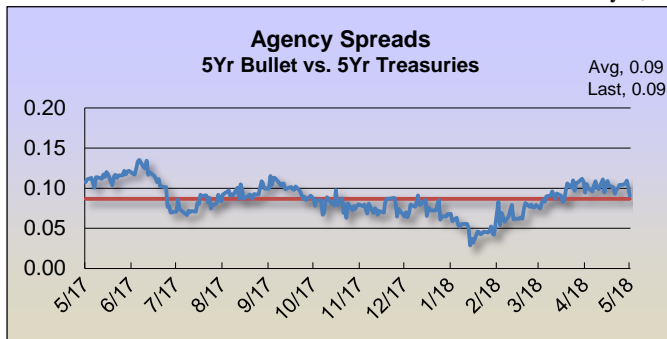
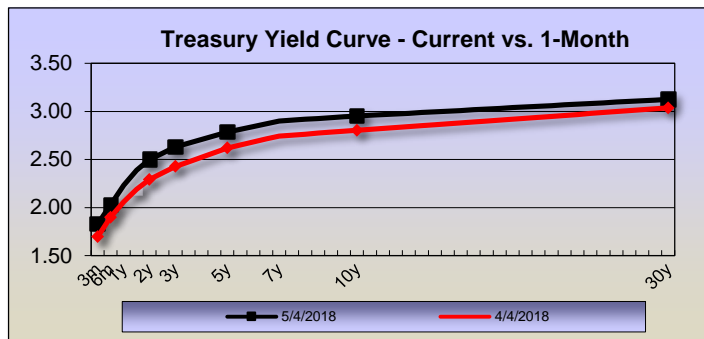
But, we can't ignore inflation. The cut-rate deal that Janet Yellen got on her cell phone plan last year has now fallen out of the year-over-year calculations, and that helped push the core rate of the Personal Consumption Expenditures Index up to 1.9% from 1.6%. For the month, that measure rose by 0.2%. The all inclusive PCE Deflator has now achieved the Fed's magical and arbitrary level of 2%. Late-cycle or not, our policy makers are happy that inflation is rising and if that's not tempting fate, one wonders what is.

If the FOMC was tempted to raise the target for Fed Funds at this week's meeting, they bravely, and unanimously, resisted; no civil disobedience on Mr. Powell's committee. The bond market wouldn't let them, anyway. Investors who might be seeing things a little differently than Mr. Powell would not allow the benchmark Ten-Year Note to linger very long at the 3% yield of late April. Despite the improving inflation picture, (remember when "improving" meant "falling"?), bond yields are not going to end up the week any higher than when they started, and for the Ten Year, that's below 3%.

Three per-cent is also what the market was expecting Unit Labor Costs for Q1 to be, but actual results could only muster a 2.7% increase. Once again, one is left to wonder if labor market conditions might not be quite as tight as what policy-makers describe. The Institute of Supply Management (ISM) described a manufacturing picture that, while still pretty strong, is less strong than last month. The ISM Manufacturing Index fell to 57.3 from 59.3. In more technical terms, that's a lot.

Conversely, consumers' Personal Spending *rose* a lot. March's increase of 0.4% contrasted sharply with February's decline of 0.2%. Unfortunately, Personal Income only rose by 0.3%. Can we spend more than we make? You betcha! If one needs any proof of that, just take a quick look at the Treasury's calendar of recent and planned debt auctions. They're huge and getting huger.

But the huge Trade Deficit became a little less so. Last month's shortfall of -\$57.7B shrunk to -\$49B. Balance, Grasshopper. Next week, the delicate balancing act of the Fed will be further illuminated with new reports for PPI and CPI and more data on workers' earnings. No data on the 95,745,000 non-working Americans is scheduled for release. Also not scheduled is a podcast for today's newsletter, but we'll get this computer thing figured out and try it again next Friday. Until then, 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	1.83	0.02	1.70	1.17	0.88	2yr	2.55	2.76	2.63	2.80	25.00	2Yr	1.94	1.94	1.94	-
6mo	2.03	0.02	1.90	1.30	1.00	3yr	2.68	2.85	2.76	2.94	32.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.23	(0.00)	2.06	1.46	1.10	5yr	2.88	2.92	3.00	3.19	47.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.50	0.01	2.29	1.62	1.31	7yr	3.04	2.95	3.21	3.41	52.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.63	0.01	2.43	1.73	1.50	10yr	3.23	2.99	3.43	3.65	71.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.79	(0.02)	2.62	1.99	1.89	15yr	3.37	3.04	3.78	4.02	87.00	June TBA MBS				
7yr	2.90	(0.02)	2.74	2.18	2.17	20yr	3.52	3.05	4.02	4.28	70.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.95	(0.01)	2.80	2.33	2.35	25yr	3.68	3.04	4.11	4.37	75.00	2.00	3.13	5.1y		
30yr	3.13	0.00	3.04	2.81	3.00	30yr		3.02	4.20	4.47	80.00	2.50	3.09	5.3y		
												3.00	3.16	5.1y	3.46	9.9y
												3.50	3.02	3.0y	3.61	9.2y
												4.00			3.69	7.5y
												4.50			3.70	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	1.74				
1 Month LIBOR	1.92	0.02	1.88	1.24	0.99
3 Month LIBOR	2.36	--	2.32	1.39	1.17
6 Month LIBOR	2.51	--	2.46	1.59	1.43
1 Year LIBOR	2.77	--	2.67	1.86	1.77
6 Month CD	2.50	--	2.45	1.56	1.56
1 Year CMT	2.24	--	2.09	1.49	1.10
REPO O/N	1.76	--	1.73	1.13	0.97
REPO 1Wk	1.78	--	1.80	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	2.04	2.17	2.02	2.15	May-18	1.705
6mo	2.19	2.30	2.19	2.32	Jun-18	1.835
1yr	2.50	2.48	2.49	2.60	Jul-18	1.940
2yr	2.69	2.86	2.73	2.89	Aug-18	1.955
3yr	2.83	3.02	2.92	3.04	Sep-18	1.975
4yr	2.92	3.12	3.01	3.13	Oct-18	2.130
5yr	2.97	3.18	3.06	3.16	Nov-18	2.145
7yr	3.19	3.44	3.27	3.32	Dec-18	2.190
10yr	3.38	3.64	3.45	3.51	Jan-19	2.265
5yr Am	2.86		2.94	3.10	Feb-19	2.280
10yr Am	3.20		3.27	3.41	Mar-19	2.315

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
04/30	Personal Income	Mar	0.40%	0.30%	0.40%	0.30%
04/30	Personal Spending	Mar	0.40%	0.40%	0.20%	0.00%
04/30	Real Personal Spending	Mar	0.50%	0.40%	0.00%	-0.20%
04/30	PCE Deflator YoY	Mar	2.00%	2.00%	4.80%	1.70%
04/30	PCE Core YoY	Mar	1.90%	1.90%	1.60%	--
04/30	Pending Home Sales NSA YoY	Mar	--	-4.40%	-4.40%	-4.70%
05/01	Markit US Manufacturing PMI	Apr F	56.50	56.50	56.50	--
05/01	ISM Manufacturing	Apr	58.50	57.30	59.30	--
05/01	ISM Employment	Apr	--	54.20	57.30	--
05/01	ISM Prices Paid	Apr	78.50	79.30	78.10	--
05/01	ISM New Orders	Apr	--	61.20	61.90	--
05/02	MBA Mortgage Applications	4/27	--	-2.50%	-0.20%	--
05/02	ADP Employment Change	Apr	198k	204k	244k	228k
05/02	FOMC Rate Decision (Upper Bound)	5/2	1.75%	1.75%	1.75%	--
05/02	FOMC Rate Decision (Lower Bound)	5/2	1.50%	1.50%	1.50%	--
05/03	Challenger Job Cuts YoY	Apr	--	-1.40%	39.40%	--
05/03	Nonfarm Productivity	1Q P	0.90%	0.70%	0.00%	0.30%
05/03	Unit Labor Costs	1Q P	3.00%	2.70%	2.50%	2.10%
05/03	Initial Jobless Claims	4/28	225k	211k	209k	--
05/03	Continuing Claims	4/21	1835k	1756k	4837k	1833k
05/03	Markit US Composite PMI	Apr F	--	54.90	54.80	--
05/03	Factory Orders Ex Trans	Mar	--	0.30%	0.40%	0.20%
05/03	Durables Ex Transportation	Mar F	--	0.10%	0.00%	--
05/03	Cap Goods Ship Nondef Ex Air	Mar F	--	-0.80%	-0.70%	--
05/04	Change in Nonfarm Payrolls	Apr	193k	164k	403k	135k
05/04	Two-Month Payroll Net Revision	Apr	--	30k	--	--
05/04	Change in Private Payrolls	Apr	190k	168k	402k	135k
05/04	Change in Manuf. Payrolls	Apr	20k	24k	22k	--
05/04	Unemployment Rate	Apr	4.00%	3.90%	4.10%	--
05/04	Underemployment Rate	Apr	--	7.80%	8.00%	--
05/04	Average Hourly Earnings YoY	Apr	2.70%	2.60%	2.70%	2.60%
05/04	Average Weekly Hours All Employees	Apr	34.50	34.50	34.50	--
05/04	Labor Force Participation Rate	Apr	63.00%	62.80%	62.90%	--
05/08	JOLTS Job Openings	Mar	--	--	6052.00	--
05/09	PPI Final Demand YoY	Apr	2.80%	--	3.00%	--
05/09	PPI Ex Food and Energy YoY	Apr	2.40%	--	2.70%	--
05/09	PPI Ex Food, Energy, Trade YoY	Apr	--	--	2.90%	--
05/10	CPI YoY	Apr	2.50%	--	2.40%	--
05/10	Initial Jobless Claims	5/5	218k	--	211k	--
05/10	CPI Ex Food and Energy YoY	Apr	2.20%	--	2.10%	--
05/10	Continuing Claims	4/28	1805k	--	1756k	--
05/10	CPI Index NSA	Apr	250.70	--	249.55	--
05/10	CPI Core Index SA	Apr	--	--	256.20	--
05/10	Real Avg Weekly Earnings YoY	Apr	--	--	0.90%	--
05/10	Real Avg Hourly Earning YoY	Apr	--	--	0.40%	0.30%
05/11	U. of Mich. Current Conditions	May P	--	--	114.90	--
05/11	U. of Mich. 1 Yr Inflation	May P	--	--	2.70%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.8	12.4	14.3	16.3	24.5	31.4
FH/FN 15y	4.8	5.3	6.2	13.0	15.1	18.8
GN 15y	6.4	9.6	12.1	11.9	12.7	13.1
FH/FN 20y		4.9	6.9	8.3	10.2	12.9
FH/FN 30y	1.6	4.0	2.9	4.8	8.5	14.1
GN 30y	5.4	8.5	11.2	15.1	14.3	16.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.5	11.4	12.1	17.2	19.4	21.5
FH/FN 15y	7.4	7.9	8.7	11.2	15.7	25.0
GN 15y	6.1	10.1	11.9	13.9	12.8	12.6
FH/FN 20y	3.1	6.8	7.7	9.4	11.4	13.7
FH/FN 30y	4.9	5.6	5.8	6.9	9.7	12.1
GN 30y	5.5	7.9	8.9	10.9	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.23	0.18	106.78	113.71	112.46
Euro	1.19	(0.02)	1.23	1.16	1.10
Dollar Index	92.78	1.23	90.14	94.94	98.80
Major Stock Indices					
Dow Jones	24,184	(127)	24,264	23,539	20,951
S&P 500	2,651.7	(18.2)	2,644.7	2,587.8	2,389.5
NASDAQ	7,188.0	68	7,042.1	6,764.4	6,075.3
Commodities					
Gold	1,310.9	(12.5)	1,335.8	1,269.2	1,228.6
Crude Oil	68.92	0.82	63.37	55.64	45.52
Natural Gas	2.71	(0.06)	2.72	2.98	3.19
Wheat	529.5	34.0	455.8	425.8	426.0
Corn	398.8	9.3	381.0	348.3	358.0

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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