

Baker Market Update: Week in Review

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Did Fed Chairman Jerome Powell throw the BLS under the bus when he delivered a speech yesterday to the Economic Club of New York? Well, not really; he seems like too nice of a guy for that. But he did make it sound like pandemic-related statistical misclassifications had a lot to do with the unemployment rate being as low as it is. In fact, Mr. Powell thinks it ought to be closer to 10%. But, according to BLS Commissioner William Beach, correctly classifying the misclassified would only add 0.6%, at most, to the current unemployment rate of 6.3%. Jerome gets to 10% by counting those who have left the labor force as “unemployed”, but that’s not a misclassification. That’s a Labor Force Participation Rate that has fallen from 63.4% to 61.4% in just one year and Powell is right to be concerned. But to some, the Chairman’s remarks bordered on misinformation and the Ministry of Truth is reviewing the matter.

On Tuesday, the National Federation of Independent Businesses reviewed its Small Business Optimism Index for January and the decline to 95 from 95.9 was made all the worse in light of a forecast calling for 97. Slightly better labor-related news came from the Job Openings and Labor Turnover Survey when the BLS reported that those Openings rose to 6.65M in December from 6.57M in November. The forecasters got that one wrong, too, with a call for a drop to 6.4M. But the Treasury didn’t get it wrong when they sold \$58B Three-Year notes to a bunch of lucky investors for less than 20 basis points. Nice trade.

On Wednesday morning, investors were greeted by news from the Mortgage Bankers Association that new Mortgage Applications fell by 4.1% for the week ending February 5th in a turnaround from the prior week’s gain of 8.1%. The data from last week show that Purchase Applications fell by 4.7% with Refi Applications falling 4.2%. All in all, refis accounted for 70.2% of new applications and that was down from the prior week’s 71.4%. After that, we learned from the BLS that despite January’s rise of 0.3% in the Consumer Price Index, the year-over-year pace remained unchanged at 1.4%. Without food and energy, core CPI was unchanged last month as the year-over-year rate fell two-tenths to 1.4%. The prospect of inflation is a hot topic these days and reasonable arguments have

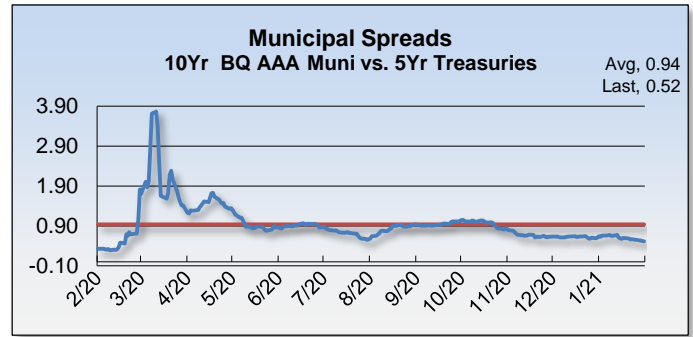
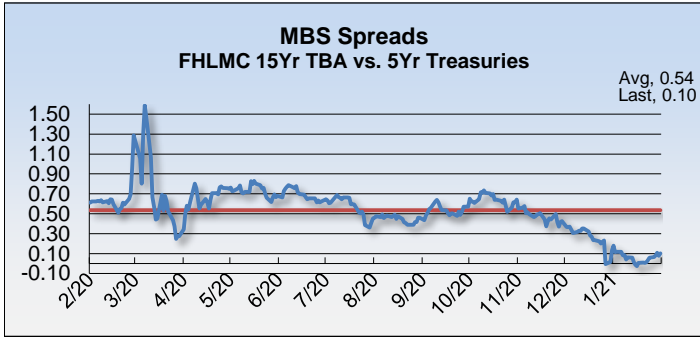
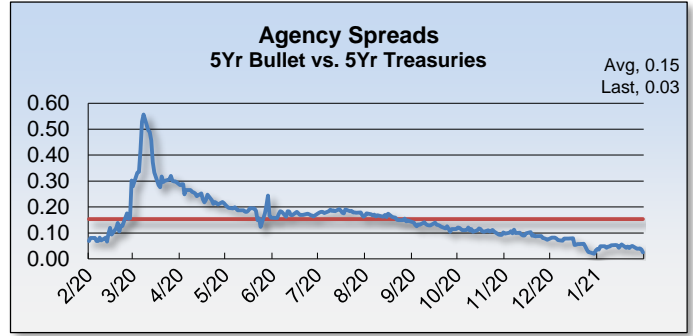
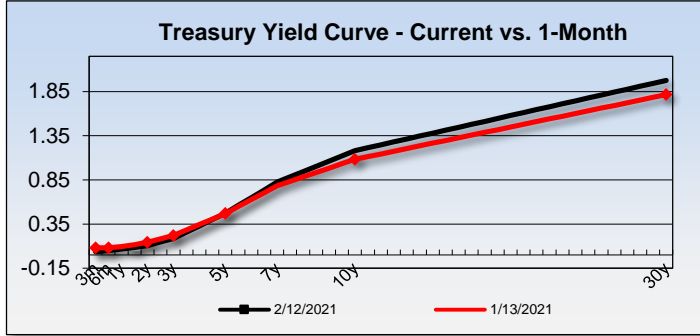
been put forth that describe both its likelihood as well as its improbability. The tricky thing about measuring inflation is that even though it’s assigned one numeric value, it’s a lot more than one thing. Within any price level index, some individual components are inflating while others are deflating and still others are disinflating. These measurements are pretty dodgy in the best of times and mix in pandemic-induced distortions and income-skewing transfer payments and the inflation picture is hardly one of clarity. And until it looks like it will clearly remain above 2% for a while, Mr. Powell has no intention of letting up with QE nor changing his zero-bound policy rate. He said that.

Also on Wednesday, the BLS said that, in January, inflation-adjusted Real Average Weekly Earnings grew by an incredible 6.1% year-over-year while December’s incredible measurement was revised from up 4.9% to up 5.3%. The report also disclosed that Real Average Hourly Earnings were up 4% year-over-year. The Treasury disclosed that its sale of \$41B Ten-Year notes got put away at a yield just under 1.16%. After getting all of those Ten-Years sold, the Treasury then announced that its Monthly Budget Statement in January produced a shortfall of \$162.8B. December’s deficit was \$32.6B. Doesn’t matter; nobody cares.

But, lots of people care about Jobless Claims and on Thursday, the BLS reported that for the week ending February 6th, Initial Claims totaled 793k and since the prior week’s 779k was revised to 812k, it could be called a decline. Forecasters were forecasting a decline to 760k. Continuing Claims for the week ending January 30th fell to 4.55M as the prior week’s 4.59M was revised to 4.69M. Analysts were expecting a decline to 4.42M. Also on Thursday, the Treasury completed its refunding efforts with the sale of \$27B Thirty-Year bonds that investors gobbled up at a yield of 1.93%. Not a bad trade for the Treasury considering that at one point early on Monday morning, the Long Bond had a brief brush with 2%.

And it’s brushing 2% again today, or at least it was until the University of Michigan released its preliminary January report for Consumer Sentiment. That Index fell to 76.2 from 79 against an expected improvement to 80.9. Should this have been a surprise? Within the broad Index, the Current Conditions component fell to 86.2 from 86.7 while those surprised analysts were looking for 89. But the real

damage took place in the Expectations sub-index with a plummet to 69.8 from 74 versus the forecast of an improvement to 76. Disappointing results for those who believe the analysts. Maybe they just can’t handle the truth. Have a great weekend; stay warm and 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	0.04	0.01	0.08	0.10	1.58	2yr	0.14	0.20	0.11	0.12	0.19	2Yr	0.03	0.03	0.03	-
6mo	0.05	0.01	0.09	0.11	1.55	3yr	0.23	0.29	0.14	0.15	0.35	3Yr	0.11	0.11	0.10	0.11
1yr	0.07	0.01	0.10	0.14	1.49	5yr	0.52	0.60	0.28	0.30	0.66	5Yr	0.48	0.48	0.47	0.41
2yr	0.11	0.00	0.15	0.16	1.44	7yr	0.83	0.91	0.53	0.57	1.04	7Yr	0.83	0.85	0.84	0.78
3yr	0.19	0.01	0.23	0.19	1.45	10yr	1.34	1.26	0.97	1.03	1.56	10Yr	1.24	1.29	1.28	1.22
5yr	0.47	0.01	0.50	0.30	1.45	15yr	1.85	1.56	1.33	1.42	1.98	March TBA MBS				
7yr	0.82	0.00	0.83	0.50	1.55	20yr	2.35	1.70	1.61	1.71	2.56	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.18	0.02	1.13	0.68	1.63	25yr	2.85	1.76	1.74	1.86	2.61	2.00	0.79	3.8y	1.43	
30yr	1.98	0.00	1.87	1.37	2.09	30yr		1.79	1.88	2.00	2.66	2.50	0.59	2.8y		
												3.00	0.89	2.9y	0.77	2.4y
												3.50	0.51	2.3y	0.34	2.1y
												4.00			0.59	2.3y
												4.50			0.60	2.4y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	1.75
Primary Discount	0.25	--	0.25	0.25	2.25
2ndary Discount	0.75	--	0.75	0.75	2.75
Prime Rate	3.25	--	3.25	3.25	4.75
Sec. O.N. Finance	0.06	0.01	0.09	0.10	--
1 Month LIBOR	0.11	(0.01)	0.13	0.16	1.65
3 Month LIBOR	0.20	0.01	0.22	0.25	1.71
6 Month LIBOR	0.21	(0.01)	0.25	0.34	1.72
1 Year LIBOR	0.30	(0.00)	0.33	0.46	1.81
6 Month CD	0.12	--	0.21	0.23	1.62
1 Year CMT	0.07	--	0.10	0.15	1.48
REPO O/N	0.07	0.01	0.10	0.12	1.60
REPO 1Wk	0.08	(0.03)	0.09	0.09	1.59
CoF Federal	0.925	--	0.958	1.158	1.955
11th D. CoF (Dec)	0.460	--	0.466	0.682	1.036

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.23	0.33	0.28
6mo	0.23	0.33	0.27
1yr	0.28	0.29	0.29
2yr	0.31	0.47	0.33
3yr	0.37	0.57	0.41
4yr	0.51	0.72	0.55
5yr	0.66	0.89	0.69
7yr	1.02	1.28	1.05
10yr	1.45	1.73	1.48
5yr Am	0.45		0.54
10yr Am	1.00		1.07

Fed Fund Futures	
Maturity	Rate
Feb-21	0.072
Mar-21	0.065
Apr-21	0.075
May-21	0.080
Jun-21	0.080
Jul-21	0.080
Aug-21	0.075
Sep-21	0.080
Oct-21	0.085
Nov-21	0.080
Dec-21	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
2/9	NFIB Small Business Optimism	Jan	97	95	96	--
2/9	JOLTS Job Openings	Dec	6400	6646	6527	6572
2/10	MBA Mortgage Applications	2/5	--	-4.1%	8.1%	--
2/10	CPI MoM	Jan	0.3%	0.3%	0.4%	0.2%
2/10	CPI Ex Food and Energy MoM	Jan	0.2%	0.0%	0.1%	0.0%
2/10	CPI YoY	Jan	1.5%	1.4%	1.4%	--
2/10	CPI Ex Food and Energy YoY	Jan	1.5%	1.4%	1.6%	--
2/10	CPI Index NSA	Jan	261.80	261.58	260.47	--
2/10	CPI Core Index SA	Jan	270.59	270.03	270.12	269.94
2/10	Real Avg Weekly Earnings YoY	Jan	--	6.1%	4.9%	5.3%
2/10	Real Avg Hourly Earning YoY	Jan	--	4.0%	3.7%	4.1%
2/10	Wholesale Inventories MoM	Dec F	0.1%	0.3%	0.1%	--
2/10	Wholesale Trade Sales MoM	Dec	--	1.2%	0.2%	0.3%
2/10	Monthly Budget Statement	Jan	-\$157.5b	-\$162.8b	-\$32.6b	--
2/11	Initial Jobless Claims	2/6	760k	793k	779k	812k
2/11	Continuing Claims	1/30	4420k	4545k	4592k	4690k
2/11	Bloomberg Consumer Comfort	2/7	--	44.9	44.6	--
2/11	Mortgage Delinquencies	4Q	--	6.73%	7.65%	--
2/11	MBA Mortgage Foreclosures	4Q	--	0.56%	0.59%	--
2/12	U. of Mich. Sentiment	Feb P	80.9	76.2	79.0	--
2/12	U. of Mich. Current Conditions	Feb P	89.0	86.2	86.7	--
2/12	U. of Mich. Expectations	Feb P	76.0	69.8	74.0	--
2/12	U. of Mich. 1 Yr Inflation	Feb P	--	3.3%	3.0%	--
2/12	U. of Mich. 5-10 Yr Inflation	Feb P	--	2.7%	2.7%	--
2/16	Empire Manufacturing	Feb	6.7	--	3.5	--
2/16	Total Net TIC Flows	Dec	--	--	\$214.1b	--
2/16	Net Long-term TIC Flows	Dec	--	--	\$149.2b	--
2/17	PPI Final Demand YoY	Jan	0.9%	--	0.8%	--
2/17	PPI Ex Food and Energy YoY	Jan	1.1%	--	1.2%	--
2/17	PPI Ex Food, Energy, Trade YoY	Jan	--	--	1.1%	--
2/17	Retail Sales Ex Auto and Gas	Jan	0.9%	--	-2.1%	--
2/17	Retail Sales Control Group	Jan	1.0%	--	-1.9%	--
2/17	Capacity Utilization	Jan	74.8%	--	74.5%	--
2/17	Manufacturing (SIC) Production	Jan	0.7%	--	0.9%	--
2/17	Business Inventories	Dec	0.5%	--	0.5%	--
2/17	NAHB Housing Market Index	Feb	83	--	83	--
2/18	Building Permits MoM	Jan	-2.1%	--	4.5%	4.2%
2/18	Building Permits	Jan	1668k	--	1709k	1704k
2/18	Housing Starts	Jan	1658k	--	1669k	--
2/18	Philadelphia Fed Business Outlook	Feb	20.0	--	26.5	--
2/18	Import Price Index YoY	Jan	--	--	-0.3%	--
2/18	Export Price Index YoY	Jan	--	--	0.2%	--
2/18	Bloomberg Economic Expectations	Feb	--	--	39.5	--
2/19	Markit US Manufacturing PMI	Feb P	58.5	--	59.2	--
2/19	Markit US Composite PMI	Feb P	--	--	58.7	--
2/19	Markit US Services PMI	Feb P	57.9	--	58.3	--
2/19	Existing Home Sales	Jan	6.61m	--	6.76m	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.4	25.0	26.7	28.6	28.5	27.5
FH/FN 15y	13.8	34.4	40.4	45.0	22.3	22.2
GN 15y	20.3	19.3	18.9	19.8	17.8	19.0
FH/FN 20y	54.3	32.5	33.3	32.1	30.4	24.0
FH/FN 30y	3.5	23.0	57.6	56.5	56.8	52.3
GN 30y	11.4	18.1	42.3	51.7	41.8	28.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.9	21.5	19.4	23.0	18.4	15.8
FH/FN 15y	16.7	23.3	24.0	34.8	19.3	22.1
GN 15y	25.2	16.1	15.8	14.6	13.6	13.1
FH/FN 20y	14.9	20.9	22.7	30.4	20.2	17.8
FH/FN 30y	13.3	21.0	37.0	38.3	36.2	32.9
GN 30y	12.0	20.2	27.8	25.2	30.3	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	104.97	(0.42)	103.76	106.91	110.09
Euro	1.21	0.01	1.22	1.18	1.09
Dollar Index	90.44	(0.61)	90.09	93.44	99.05
Major Stock Indices					
Dow Jones	31,417	269	31,069	27,977	29,551
S&P 500	3,920.5	33.7	3,801.2	3,380.4	3,379.5
NASDAQ	14,047.8	192	13,072.4	11,012.2	9,726.0
Commodities					
Gold	1,811.6	0.7	1,844.2	1,934.9	1,567.4
Crude Oil	58.67	1.82	53.21	42.67	51.17
Natural Gas	2.88	0.01	2.75	2.15	1.84
Wheat	636.5	-4.8	665.0	491.3	547.5
Corn	537.5	-11.0	517.3	314.5	383.0

Notes

- 1 Call Agy = Maturity at left w/ a 1-Year Call at Par
- 2 Muni TEY (21% Fed, 0.75% CoF)
- 3 S-Corp TEY Muni (29.6%, no TEFERA)
- 4 MBS Prepayments are provided by Bloomberg

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