

Baker Market Update: Week in Review

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Yes, it's cold outside. And depending upon where one lives, it might be cold inside, too. But even more surprising than how cold it's gotten this month, was the news of last month's red-hot consumers. About all that's being consumed these days is whatever fuel heats your house, but in January, according to the Census Bureau, furniture consumption rose by 12% as the sales of electronics jumped 14.7%. After a year of Americans living the lockdown life, one might reasonably wonder what electronics are still left to be bought.

But those are just a couple of the spending destinations that helped Retail Sales notch a 5.3% gain last month. That not only blew away the estimate of a 1.1% growth rate that might as well have come from Dr. Fauci, it also put an end to a three-month losing streak. And while the 11% growth in on-line retailer sales might have been expected in light of the overall results, the 23.5% boost in department store sales was certainly not, and might be a sign that more shoppers are once again getting out and about. Well, maybe not this week.

Along with Wednesday's report from the Census Bureau, the Bureau of Labor Statistics came out with its own surprising news about wholesale inflation. In January, the Producer Price Index leaped by 1.3% versus an estimate of just 0.4% while the year-over-year pace did some of its own leaping to 1.7%, almost doubling the estimate of 0.9%. Unsurprisingly, the big mover in costs was the 5.1% boost from energy while food inputs only rose by 0.2%. Transportation and Warehousing costs were up 1.3%. Also unsurprisingly, whoever made these estimates also has an estimate about what bond yields might be in the future. Don't listen to them.

But it's probably okay to listen to the Fed and on Monday the New York Fed told us that its Empire Manufacturing Index rose unexpectedly to 12.1 from 3.5. The reason the rise was unexpected was because investors were told it would come in around 6. On second thought, don't listen to the Fed, either. But if you can't help yourself, the Atlanta Fed just updated its GDPNow forecast for Q1 and their latest estimate is now 9.5%. Take the under.

It looks like the smart money took the under when it came to last month's Housing Starts. The unenthusiastic estimate of a 0.5% drop became a bit more than just an enthusiasm gap when the Census Bureau reported that they actually fell by 6%. Better news came from a report telling us that Building Permits rose by 10.4% instead of the WAG of a 1.4% drop.

Some guessers guessed that Initial Jobless Claims would drop, too, but they didn't. The BLS reported that for the week ending February 13th, 861k new applicants filed for benefits against a forecast of 773k. To make things worse, the prior week's 793k that looked like a decline after an upward revision to the week before that, was actually just another increase after it was revised yesterday to 848k. Continuing Claims for the week ending February 6th fell to 4.49M from 4.56M but that still disappointed analysts looking for 4.43M.

Also from the BLS, more information about price levels came our way with a report that its Import Price Index rose by a greater-than-expected 1.4% last month. What was expected was a 1% rise, but a 12.9% boost in Building Material costs wasn't. The year-over-year growth rate for that index was supposed to be 0.4% but came in more-than-double that at 0.9%. Now, what about the prices of the stuff we sell to others? Well, the Export Price Index soared 2.5% last month but the export experts were only looking for 0.8%. Year-over-year that growth rate also did some soaring to 2.3% from December's 0.4%.

Data like this and like what we saw in the PPI report strongly suggest to many that rising inflation and rising inflationary expectations are going to arrive earlier than many experts and analysts might have thought. Just look at this week's big misses. But will it? There are many variables and the jury is still out. Our economy has a large output gap that needs filling and there are about 9.5M jobless people who weren't jobless a year ago. Measuring inflation is a complicated and error-prone process made more complicated and error-prone by the damage done and the remedies prescribed. With the recent rise in Treasury yields and the ever-steepening yield curve, it feels like bond investors are already anticipating inflation's early arrival. It won't be long before severely impacted lockdown months start falling off the year-over-year calculations and we could be soon be looking at some startling statistics through spring and summer.

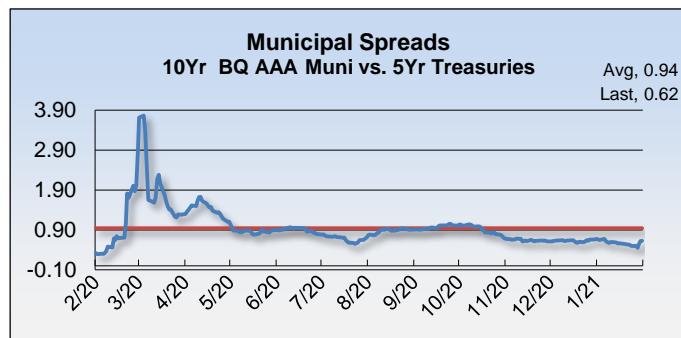
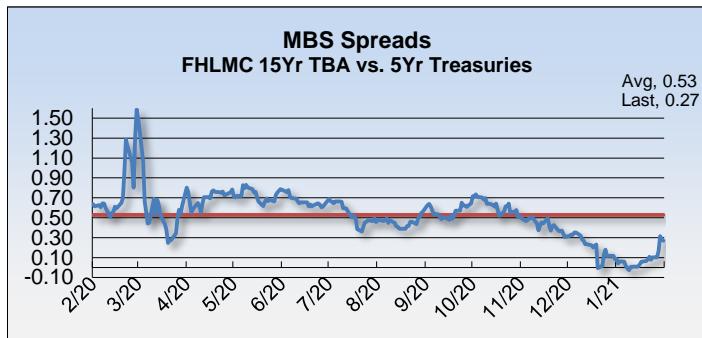
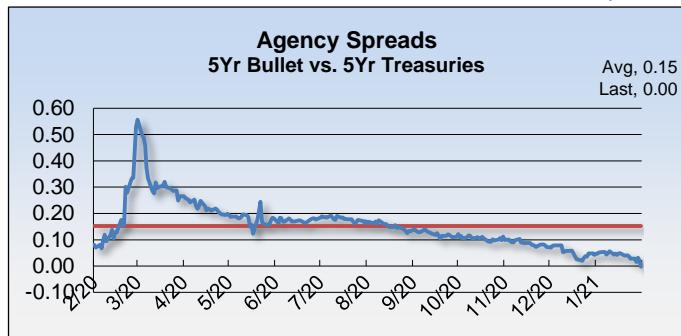
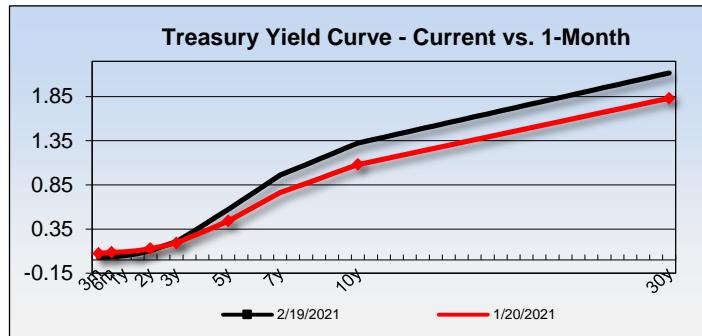
Behavioral changes will also result from an easing of government's grip on our lives and that's liable to produce some unexpected performance measurements. Be careful with those numbers.

Other numbers out this week include Wednesday's report that Industrial Production rose 0.9% last month and while that was less than December's 1.3% growth rate, it was more than the 0.4% that was forecast. Another bit of positive news came with a report telling us that Capacity Utilization rose to 75.6% from 74.9% last month. But that was last month and there are a lot of Texans who might take issue with that report after this week's experience with utility output.

This morning, we learned that the heat under Existing Home Sales was a little cooler than was previously thought as December's 6.76M annualized rate was revised to 6.65M. But that made January's just reported 6.69M look like a slight gain instead of a slight slip. Pre-release estimates were looking for a little bit bigger slip to 6.6M. But with the National Association of Home Builders reporting earlier that its Housing Market Index rose to 84 this month from 83, the housing market still feels pretty strong and the issue with Existing Home Sales is more about supply than it is about demand.

Rounding out the week's data was today's report from Markit U.S. announcing that its Manufacturing PMI slipped slightly this month to 58.5 from 59.2 and that was pretty close to the estimate of 58.8. For Services, that PMI fared a little better with a rise to 58.9 from 58.3 and that beat the surveys expecting a drop to 58.

With much of the week's data showing surprising vitality, the Treasury market sold off to higher yields not seen in the past year as some equity indices reached levels never seen before. Is this evidence of progress made because of vaccinations and re-openings or is it more about relief checks and the prospect of more government support? A good question whose answer will remain unknown until later. For many people, the most pressing question is more basic. When's the heat coming back on?! Have a great weekend; be careful out there.



Treasury Market -- Historical						Fixed Rate Market											
Maty	Current	1Wk Change	Historical			Maty	N-Call /AL	US Swap	AAA BQ Muni		Tax Muny	Mty	Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³			3Mo	6mo	1Yr	2Yr	
3mo	0.03	(0.01)	0.08	0.10	1.58	2yr	0.14	0.20	0.17	0.18	0.19	2Yr	0.03	0.03	0.03	-	
6mo	0.04	(0.02)	0.09	0.12	1.55	3yr	0.25	0.32	0.25	0.27	0.38	3Yr	0.13	0.14	0.10	0.13	
1yr	0.05	(0.02)	0.10	0.12	1.47	5yr	0.63	0.71	0.42	0.45	0.75	5Yr	0.58	0.58	0.57	0.51	
2yr	0.11	(0.00)	0.13	0.14	1.42	7yr	0.96	1.06	0.70	0.75	1.14	7Yr	0.97	0.99	0.98	0.92	
3yr	0.21	0.01	0.20	0.17	1.42	10yr	1.46	1.42	1.15	1.22	1.69	10Yr	1.38	1.44	1.43	1.37	
5yr	0.57	0.08	0.45	0.28	1.41	15yr	1.96	1.72	1.51	1.61	2.11	March TBA MBS					
7yr	0.96	0.11	0.77	0.48	1.49	20yr	2.46	1.84	1.79	1.91	2.69	Cpn	15Yr -Yld/AL	30Yr -Yld/AL			
10yr	1.32	0.11	1.09	0.68	1.57	25yr	2.97	1.90	1.93	2.05	2.74	2.00	0.93	3.8y	1.67		
30yr	2.12	0.11	1.84	1.42	2.01	30yr	1.92	1.92	2.06	2.19	2.79	2.50	0.48	2.6y			

* 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	0.03	(0.03)	0.08	0.09	--
1 Month LIBOR	0.11	0.00	0.13	0.16	1.65
3 Month LIBOR	0.18	(0.02)	0.22	0.27	1.69
6 Month LIBOR	0.20	(0.01)	0.25	0.32	1.72
1 Year LIBOR	0.30	(0.01)	0.32	0.46	1.79
6 Month CD	0.21	0.09	0.19	0.27	1.72
1 Year CMT	0.06	(0.01)	0.10	0.13	1.47
REPO O/N	0.05	(0.03)	0.09	0.12	1.60
REPO 1Wk	0.07	--	0.09	0.09	1.61
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	0.32	0.27
1yr	0.28	0.28	0.28
2yr	0.31	0.47	0.33
3yr	0.39	0.59	0.44
4yr	0.58	0.79	0.62
5yr	0.75	0.96	0.79
7yr	1.15	1.41	1.19
10yr	1.57	1.85	1.61
5yr Am	0.49		0.60
10yr Am	1.10		1.19

Fed Fund Futures	
Maturity	Rate
Feb-21	0.075
Mar-21	0.065
Apr-21	0.070
May-21	0.080
Jun-21	0.080
Jul-21	0.080
Aug-21	0.085
Sep-21	0.085
Oct-21	0.090
Nov-21	0.090
Dec-21	0.090

Weekly Economic Calendar
This Week & Next

Date	Release	Per.	Est.	Actual	Prior	Revised
2/16	Empire Manufacturing	Feb	6.0	12.1	3.5	--
2/16	Total Net TIC Flows	Dec	--	-\$0.6b	\$214.4b	\$114.7b
2/16	Net Long-term TIC Flows	Dec	--	\$121.0b	\$149.2b	--
2/17	MBA Mortgage Applications	2/12	--	-5.1%	-4.1%	--
2/17	PPI Final Demand YoY	Jan	0.9%	1.7%	0.8%	--
2/17	PPI Ex Food and Energy YoY	Jan	1.1%	2.0%	1.2%	--
2/17	PPI Ex Food, Energy, Trade YoY	Jan	1.0%	2.0%	1.1%	--
2/17	Retail Sales Ex Auto and Gas	Jan	0.8%	6.1%	-2.1%	-2.5%
2/17	Retail Sales Control Group	Jan	1.0%	6.0%	-1.9%	-2.4%
2/17	Capacity Utilization	Jan	74.8%	75.6%	74.5%	74.9%
2/17	Manufacturing (SIC) Production	Jan	0.7%	1.0%	0.9%	--
2/17	Business Inventories	Dec	0.5%	0.6%	0.5%	--
2/17	NAHB Housing Market Index	Feb	83	84	83	--
2/18	Housing Starts	Jan	1660k	1580k	4669k	1680k
2/18	Building Permits	Jan	1680k	1881k	4709k	1704k
2/18	Initial Jobless Claims	2/13	773k	861k	793k	848k
2/18	Continuing Claims	2/6	4425k	4494k	4545k	4558k
2/18	Import Price Index YoY	Jan	0.4%	0.9%	-0.3%	--
2/18	Export Price Index YoY	Jan	--	2.3%	0.2%	0.4%
2/18	Philadelphia Fed Business Outlook	Feb	20.0	23.1	26.5	--
2/18	Bloomberg Consumer Comfort	2/14	--	45.8	44.9	--
2/18	Bloomberg Economic Expectations	Feb	--	48.5	39.5	--
2/19	Markit US Manufacturing PMI	Feb P	58.8	58.5	59.2	--
2/19	Markit US Composite PMI	Feb P	--	58.8	58.7	--
2/19	Markit US Services PMI	Feb P	58.0	58.9	58.3	--
2/19	Existing Home Sales	Jan	6.60m	6.69m	6.76m	6.65m
2/22	Chicago Fed Nat Activity Index	Jan	--	--	52.0%	--
2/22	Leading Index	Jan	0.3%	--	0.3%	--
2/23	House Price Purchase Index QoQ	4Q	--	--	3.1%	--
2/23	S&P CoreLogic CS 20-City YoY NSA	Dec	--	--	9.08%	--
2/23	S&P CoreLogic CS US HPI YoY NSA	Dec	--	--	9.49%	--
2/23	Conf. Board Consumer Confidence	Feb	90.0	--	89.3	--
2/23	Conf. Board Present Situation	Feb	--	--	84.4	--
2/24	New Home Sales	Jan	859k	--	842k	--
2/25	Durables Ex Transportation	Jan P	0.7%	--	1.1%	--
2/25	Cap Goods Orders Nondef Ex Air	Jan P	0.6%	--	0.7%	--
2/25	GDP Annualized QoQ	4Q S	4.1%	--	4.0%	--
2/25	Cap Goods Ship Nondef Ex Air	Jan P	--	--	0.7%	--
2/25	Personal Consumption	4Q S	2.5%	--	2.5%	--
2/25	GDP Price Index	4Q S	2.0%	--	2.0%	--
2/25	Core PCE QoQ	4Q S	1.4%	--	1.4%	--
2/25	Pending Home Sales NSA YoY	Jan	--	--	22.8%	--
2/26	Advance Goods Trade Balance	Jan	-\$83.0b	--	-\$82.5b	--
2/26	Personal Income	Jan	10.0%	--	0.6%	--
2/26	PCE Deflator YoY	Jan	1.4%	--	1.3%	--
2/26	PCE Core Deflator YoY	Jan	1.4%	--	1.5%	--
2/26	MNI Chicago PMI	Feb	61.0	--	63.8	--

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	15.8	19.8	18.3	22.0	18.1	15.6
FH/FN 15y	16.5	24.2	23.3	34.4	19.1	21.8
GN 15y	25.1	15.6	15.6	14.5	13.5	13.1
FH/FN 20y	13.0	21.1	21.6	30.2	20.3	17.9
FH/FN 30y	12.4	19.1	34.2	36.6	35.9	32.6
GN 30y	12.0	18.5	24.9	25.2	30.4	22.8

Other Markets						
Index	Current	1Wk Chng	Historical			
			1 Mo	6 Mo	1 Yr	
Currencies						
Japanese Yen	105.65	0.71	103.90	106.12	111.37	
Euro	1.21	0.00	1.21	1.18	1.08	
Dollar Index	90.28	(0.14)	90.50	92.89	99.71	
Major Stock Indices						
Dow Jones	31,613	182	30,931	27,693	29,348	
S&P 500	3,925.2	8.8	3,798.9	3,374.9	3,386.2	
NASDAQ	13,956.1	(70)	13,197.2	11,146.5	9,817.2	
Commodities						
Gold	1,781.6	(43.3)	1,840.2	1,958.7	1,607.5	
Crude Oil	60.02	1.78	52.98	42.93	53.29	
Natural Gas	3.12	0.25	2.55	2.43	1.96	
Wheat	658.5	25.0	672.3	512.0	565.3	
Corn	550.0	9.0	526.0	325.0	380.5	

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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