

Baker Market Update: Week in Preview

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The types of supply chain shortages and bottlenecks that have led to price spikes in certain commodities and products do not currently exist in the world of U.S. Treasury securities. And to help make that point, the Treasury, in addition to its regular Monday auction of \$111B three-month and six-month bills, will also be selling another \$183B of Two-Year, Five-Year, and Seven-Year notes this week. And that's not even all of this week's Treasury offerings. Many observers are wondering just who's going to buy all those bonds and what will they pay for them? The appetite that big banks have shown this year in gobbling up Treasury debt may show signs of being sated after the Federal Reserve announced last week that a temporary exception to the Supplemental Leverage Ratio allowing bank holding companies to hold Treasury obligations without capital support will not be renewed when it expires at the end of this month. If the Fed's motivation is to disincentivize the holding of Treasuries in an attempt to incentivize lending, it's pushing on a string.

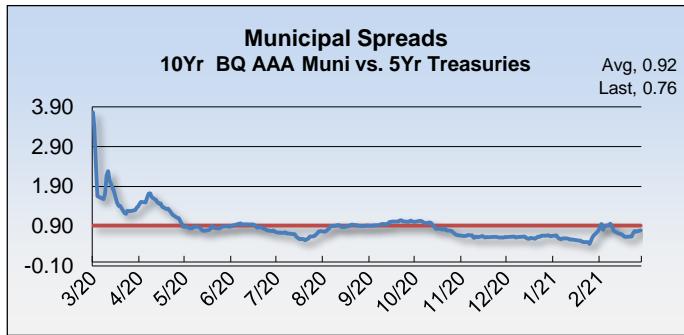
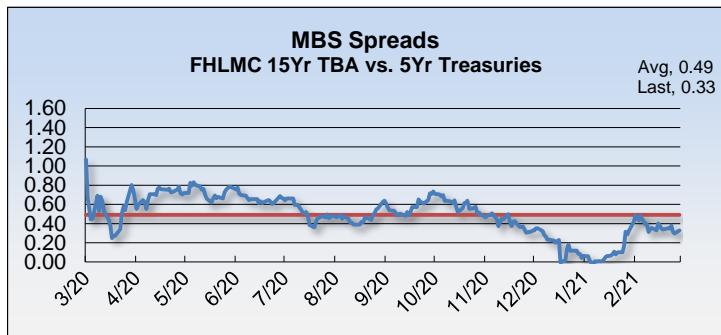
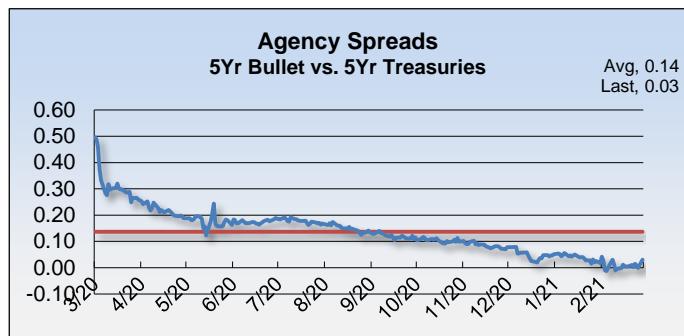
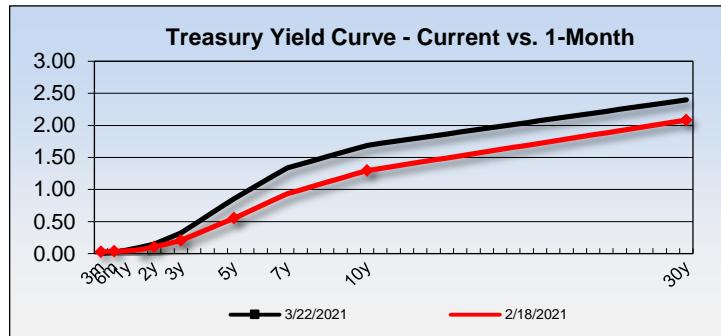
This morning, the Chicago Fed announced that its National Activity Index fell unexpectedly and unexpectedly hard last month. While January's index value of 0.66 was revised to 0.75, February's measure plummeted to minus 1.09 versus the expectation of what would have been an improvement to 0.72 without the revision. Bond prices were already up a bit with the Ten-Year's yield dipping to 1.68%. A little later today, the National Association of Realtors is expected to report that Existing Home Sales in February fell by 2.8%. Tomorrow morning, the news for housing won't get any better if analysts' predictions that New Home Sales fell 6.2% last month prove to be correct. The Census Bureau will let us know. The Richmond Fed will then be letting us know how its Manufacturing Index fared this month. Last month that value was 14 and surveys suggest a slight improvement to 15. Last week we saw a couple of similar measurements surprisingly outperform expectations, making today's news from the Chicago Fed all the more surprising. As an aside, Richmond Fed President Thomas Barkin was interviewed by Bloomberg News yesterday and he said that the economy was poised to perform well in 2021 and he's not worried about unwanted inflation. And as we know, neither is his boss. Also tomorrow, in addition to the \$60B Two-Year notes that are going up for sale, the Treasury is selling \$34B One-Year Bills and \$40B 42-Day Cash Management Bills. It's only money.

On Wednesday, the Census Bureau is supposed to report that Durable Goods Orders rose 0.7% in February after January's 3.4% pop. Without Transportation, last month's growth should come in with a rise of 0.6%. Orders for core Capital Goods are expected to show a 0.5% growth for last month. Markit U.S. will also be updating this month's PMI's and the one for Services should show a rise to 60.1 from 59.8 while the one for Manufacturing is expected to show a bump to 59.5 from 58.6. Wednesday afternoon will see the Treasury sell \$61B Five-Year notes and \$26B Two-Year Floating Rate Notes.

On Thursday, the Bureau of Labor Statistics will start things off with its weekly report for Jobless Claims. Initial Claims for the week ending March 20th should come in around 730k and that would be down a little bit from the prior week's unexpectedly high count of 770k. Continuing Claims for the week ending March 13th should show a drop to 4.03M from 4.12M. Jerome is a lot more worried about these reports than he is about the inflation reports. Also on Thursday, the Kansas City Fed is expected to announce that its Manufacturing Index rose to 26 this month from February's value of 24. Thursday afternoon will see the Treasury's Seven-Year auction and market watchers hope that this month's \$62B worth of notes can find a forever home. Readers may recall that last month's sale didn't go so well.

On Friday, we'll get started with the news that the nation's Trade Balance fell further into deficit territory last month with a move to minus \$86B from January's minus \$83.7B. But we should also learn from the Census Bureau that Wholesale Inventories rose 1.2% last month in a positive follow-up from January's 1.3% growth. We'll also get a report for Retail Inventories, but no pre-release estimate has yet been made. But, the most closely watched news of the day may come from the Bureau of Economic Analysis when it is expected to report that, in February, the Personal Consumption Expenditures Index, the Fed's favored inflation gauge, rose 0.3% with the year-over-year pace rising slightly to 1.6% from 1.5%. Without food and energy, core PCE should show a monthly rise of 0.1% and an unchanged year-over-year rate of 1.5%.

During the lockdown of 2020, headline and core PCE had deflationary months in March and April so the next couple of months could show an uncomfortable rise in year-over-year measures as they fall out of the calculation. Don't be too uncomfortable when that happens; it's mostly just math. If one feels compelled to feel uncomfortable about something, the predicted 7.2% February drop in Personal Income would be worthy of such a reaction and just goes to show what happens in the months when the government misses a relief check. We'll also likely learn that Personal Spending took a much smaller hit of 0.8%. Adjusted for inflation, Real Personal Spending is expected to have fallen 1% last month. The University of Michigan will then tell us how we're feeling about all that when it issues a finalized March report for its Index of Consumer Sentiment. A slight gain to 83.6 from 83 is expected in the overall index while the Current Conditions component should notch a bigger rise to 93 from 91.5. Feel better? Have a great week; 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 Muni	Agency Calls - Euro							
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		3Mo	6mo	1Yr	2Yr				
3mo	0.00	(0.02)	0.03	0.09	0.02	2yr	0.20	0.26	0.29	0.31	0.25	2Yr	0.09	0.09	0.09	-			
6mo	0.02	(0.02)	0.04	0.10	0.01	3yr	0.33	0.45	0.46	0.49	0.50	3Yr	0.26	0.27	0.20	0.26			
1yr	0.06	(0.01)	0.06	0.12	0.12	5yr	0.91	0.96	0.80	0.85	1.00	5Yr	0.88	0.88	0.87	0.81			
2yr	0.15	(0.00)	0.11	0.14	0.32	7yr	1.29	1.36	1.13	1.21	1.56	7Yr	1.36	1.38	1.37	1.30			
3yr	0.32	(0.01)	0.23	0.16	0.36	10yr	1.80	1.71	1.62	1.73	2.07	10Yr	1.76	1.82	1.81	1.74			
5yr	0.86	0.03	0.60	0.27	0.46	15yr	2.32	1.99	1.95	2.07	2.48	April TBA MBS							
7yr	1.34	0.06	1.00	0.46	0.73	20yr	2.84	2.09	2.23	2.37	3.06	Cpn	15Yr -Yld/AL	30Yr -Yld/AL					
10yr	1.69	0.08	1.37	0.67	0.85	25yr	3.35	2.13	2.37	2.52	3.11	2.00	1.39	4.4y	2.05				
30yr	2.40	0.04	2.17	1.42	1.42	30yr	2.15	2.15	2.51	2.67	3.16	2.50	1.22	3.4y	3.00	1.16	3.1y	1.81	3.9y
* Interpolated																			

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	0.25
Primary Discount	0.25	--	0.25	0.25	0.25
2ndary Discount	0.75	--	0.75	0.75	0.75
Prime Rate	3.25	--	3.25	3.25	3.25
Sec. O.N. Finance	0.01	--	0.02	0.09	--
1 Month LIBOR	0.11	0.00	0.12	0.16	0.92
3 Month LIBOR	0.20	0.01	0.18	0.23	1.20
6 Month LIBOR	0.20	0.01	0.20	0.28	0.98
1 Year LIBOR	0.28	(0.00)	0.29	0.37	0.92
6 Month CD	0.21	0.06	0.21	0.32	1.00
1 Year CMT	0.07	(0.02)	0.07	0.13	0.20
REPO O/N	0.01	(0.03)	0.00	0.06	0.01
REPO 1Wk	0.06	(0.03)	0.07	0.12	0.51
CoF Federal	0.876	--	0.911	1.053	1.888
11th D. CoF (Jan)	0.457	--	0.460	0.653	0.984

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.22	0.30	0.26
6mo	0.22	0.30	0.26
1yr	0.31	0.30	0.29
2yr	0.36	0.52	0.40
3yr	0.52	0.70	0.58
4yr	0.81	1.00	0.87
5yr	1.05	1.27	1.12
7yr	1.54	1.79	1.61
10yr	1.95	2.24	2.03
5yr Am	0.67		0.82
10yr Am	1.42		1.54

Fed Fund Futures	
Maturity	Rate
Mar-21	0.067
Apr-21	0.060
May-21	0.065
Jun-21	0.070
Jul-21	0.070
Aug-21	0.070
Sep-21	0.075
Oct-21	0.075
Nov-21	0.075
Dec-21	0.080
Jan-22	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
3/22	Chicago Fed Nat Activity Index	Feb	0.72	-1.09	0.66	0.75
3/22	Existing Home Sales	Feb	6.49m	--	6.69m	--
3/23	Current Account Balance	4Q	-\$188.3b	--	-\$178.5b	--
3/23	New Home Sales	Feb	870k	--	923k	--
3/23	Richmond Fed Manufact. Index	Mar	16.0	--	14.0	--
3/24	MBA Mortgage Applications	3/19	--	--	-2.2%	--
3/24	Durables Ex Transportation	Feb P	0.5%	--	1.3%	--
3/24	Cap Goods Ship Nondef Ex Air	Feb P	-1.0%	--	1.8%	--
3/24	Markit US Manufacturing PMI	Mar P	59.5	--	58.6	--
3/24	Markit US Services PMI	Mar P	60.1	--	59.8	--
3/24	Markit US Composite PMI	Mar P	--	--	59.5	--
3/25	Initial Jobless Claims	3/20	730k	--	770k	--
3/25	Continuing Claims	3/13	4000k	--	4124k	--
3/25	GDP Annualized QoQ	4Q T	4.1%	--	4.1%	--
3/25	Personal Consumption	4Q T	2.4%	--	2.4%	--
3/25	GDP Price Index	4Q T	2.1%	--	2.1%	--
3/25	Core PCE QoQ	4Q T	1.4%	--	1.4%	--
3/25	Langer Consumer Comfort	3/21	--	--	48.6	--
3/26	Advance Goods Trade Balance	Feb	-\$85.8b	--	-\$83.7b	--
3/26	Personal Income	Feb	-7.2%	--	10.0%	--
3/26	Real Personal Spending	Feb	-1.0%	--	2.0%	--
3/26	PCE Deflator YoY	Feb	1.6%	--	1.5%	--
3/26	PCE Core Deflator YoY	Feb	1.5%	--	1.5%	--
3/26	U. of Mich. Sentiment	Mar F	83.6	--	83.0	--
3/26	U. of Mich. Current Conditions	Mar F	93.0	--	91.5	--
3/26	U. of Mich. 1 Yr Inflation	Mar F	--	--	3.1%	--
3/30	S&P CoreLogic CS 20-City YoY NSA	Jan	--	--	10.1%	--
3/30	S&P CoreLogic CS US HPI YoY NSA	Jan	--	--	10.37%	--
3/30	Conf. Board Consumer Confidence	Mar	96.0	--	91.3	--
3/30	Conf. Board Present Situation	Mar	--	--	92.0	--
3/31	ADP Employment Change	Mar	485k	--	117k	--
3/31	MNI Chicago PMI	Mar	60.0	--	59.5	--
3/31	Pending Home Sales NSA YoY	Feb	--	--	8.2%	--
4/1	Challenger Job Cuts YoY	Mar	--	--	-39.1%	--
4/1	ISM Manufacturing	Mar	60.5	--	60.8	--
4/1	ISM Prices Paid	Mar	--	--	86.0	--
4/1	ISM New Orders	Mar	--	--	64.8	--
4/1	ISM Employment	Mar	--	--	54.4	--
4/2	Change in Nonfarm Payrolls	Mar	580k	--	379k	--
4/2	Two-Month Payroll Net Revision	Mar	--	--	38k	--
4/2	Change in Private Payrolls	Mar	580k	--	465k	--
4/2	Change in Manufact. Payrolls	Mar	38k	--	21k	--
4/2	Unemployment Rate	Mar	6.0%	--	6.2%	--
4/2	Average Hourly Earnings YoY	Mar	4.5%	--	5.3%	--
4/2	Average Weekly Hours All Employees	Mar	34.7	--	34.6	--
4/2	Labor Force Participation Rate	Mar	--	--	61.4%	--
4/2	Underemployment Rate	Mar	--	--	11.1%	--

MBS Prepayments ⁴						
	3-Month CPR					
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.0	25.5	26.8	28.0	29.2	28.0
FH/FN 15y	15.5	35.6	41.3	44.5	22.5	22.1
GN 15y	18.3	17.9	18.9	19.8	19.0	19.3
FH/FN 20y	55.4	33.7	33.7	31.8	29.7	23.8
FH/FN 30y	4.6	22.8	57.3	56.2	55.2	51.9
GN 30y	10.3	18.5	41.9	50.6	43.1	27.9

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.8	15.5	16.3	18.6	17.9	15.9
FH/FN 15y	12.9	17.6	20.2	27.9	18.7	21.6
GN 15y	16.0	14.5	14.8	14.1	13.4	13.1
FH/FN 20y	8.1	13.8	17.2	19.1	20.0	18.7
FH/FN 30y	7.9	12.6	23.8	27.6	30.0	29.2
GN 30y	9.9	11.9	17.9	18.4	27.4	21.2

Other Markets						
Index	Current	Chng	Historical			
			1 Mo	6 Mo	1 Yr	
Currencies						
Japanese Yen	108.81	(0.32)	105.08	104.93	111.23	
Euro	1.19	(0.00)	1.22	1.17	1.07	
Dollar Index	91.82	(0.01)	90.01	93.99	102.82	
Major Stock Indices						
Dow Jones	32,628	(151)	31,522	27,288	19,174	
S&P 500	3,913.1	(30.2)	3,876.5	3,315.6	2,304.9	
NASDAQ	13,215.2	(105)	13,533.1	10,963.6	6,879.5	
Commodities						
Gold	1,732.2	3.0	1,806.7	1,899.3	1,484.6	
Crude Oil	61.16	(4.23)	61.49	39.60	22.43	
Natural Gas	2.50	0.02	2.95	1.83	1.60	
Wheat	625.0	-20.0	664.0	558.0	539.3	
Corn	555.5	6.0	551.0	369.3	343.8	

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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