

Baker Market Update: Week in Preview

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Will the topic of inflation return to this week's front burner? That may become more clear as we get closer to Friday when the Bureau of Economic Analysis is due to release its report for April's Personal Consumption Expenditures Index. That's the inflation measurement to keep in mind when the Fed talks about maintaining an average core inflation rate of 2%. Inflation concerns in general and recent reports in particular have tested the resolve of both the FOMC and market participants to resist knee-jerk reactions to recent and alarming measurements of consumer and producer price level changes. We'll see as the week progresses if the Fed's rhetorical drumbeat of transitory price pressures still resonates with credit markets. There's also a lot of Treasury supply on the calendar and that's got to go somewhere. There's no doubt it will, but at what price? We'll have to wait and see about that, too.

So far this morning, the Chicago Fed has not gotten the week off to a very good start with a report telling us that its National Activity Index plummeted to 0.24 in April from March's level of 1.71 when it was only expected to slip to 1.2. But, that news has helped push Treasury prices up slightly and the Ten-Year is resting comfortably at 1.61%. It may be the only thing resting comfortably.

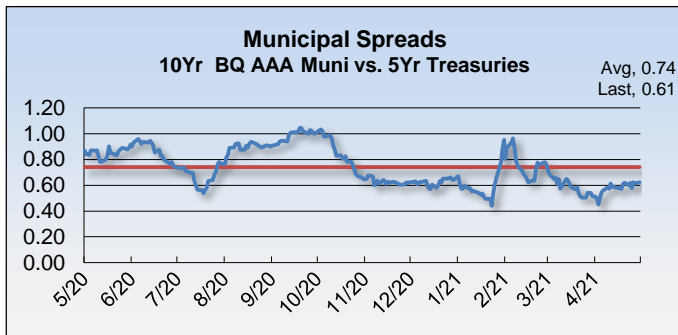
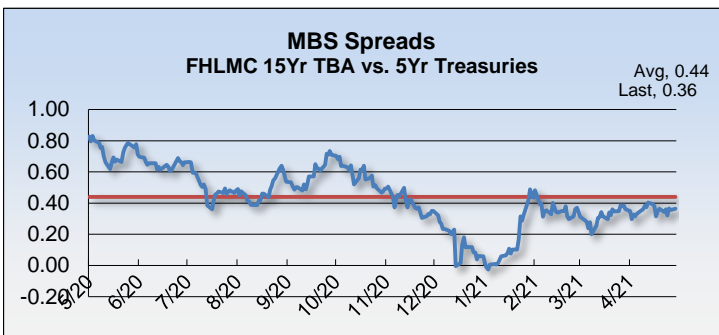
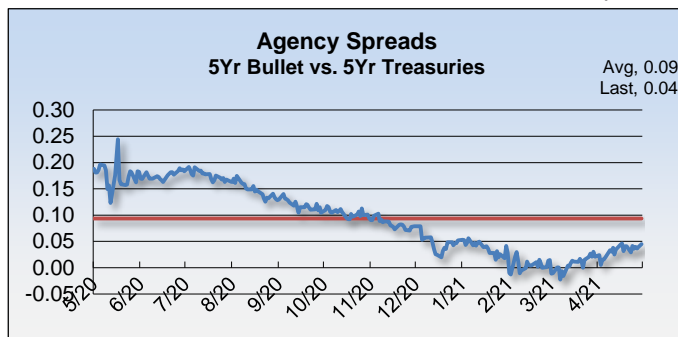
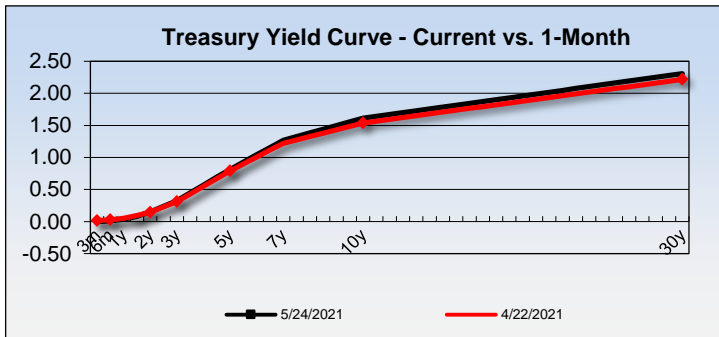
Tomorrow, the FHFA will get things started when it releases the March level of its House Price Index. Not surprising to anyone looking for a house recently, that measure is expected to show a 1.3% monthly rise over the preceding month's rise of 0.9%. The CoreLogic Case-Shiller 20-City Index is expected to report a similar March increase of 1.33% with the year-over-year pace rising to 12.55% from 11.94%. The Census Bureau is then expected to report that New Home Sales fell 6.9% in April. Readers may recall learning last week that Existing Home Sales fell 2.7% last month. Also tomorrow, the Conference Board will report on Consumer Confidence and is expected to show an unwelcome slip to 118.9 from 121.7 in its Confidence Index. The Richmond Fed will follow that up by telling us that its Manufacturing Index probably rose to 18 this month from April's level of 17. Tomorrow afternoon, the Treasury will be selling \$60B Two-Year notes.

Wednesday will be pretty light on data with the Mortgage Bankers Association weekly report on Mortgage Applications being the only scheduled release, but not light on bond sales with the Treasury's auction of \$61B Five-Year notes.

Thursday will make up for Wednesday's dearth of data starting with the weekly report from the Bureau of Labor Statistics on Jobless Claims. For the week ending May 22nd, Initial Claims are expected to show a falling total of 425k compared to the prior week's 444k. Continuing Claims for the week ending May 15th are expected to show a decline to 3.68M from the prior week's 3.75M. The National Association of Realtors is then expected to report that Pending Home Sales rose a modest 0.5% last month after notching a 1.9% rise in March. Thursday will also see the end of the Treasury's clearance sale when it puts \$62B Seven-Year notes on the auction block.

The Bureau of Economic Analysis will then take center stage on Friday with an April report for Personal Income which should show a 14.8% drop after a 21.1% burst in March. Stimulus payments come and stimulus payments go. Personal Spending is expected to still show a modest 0.5% April increase after March's growth of 4.2%. We'll also get a new Personal Savings rate for April but no one seems quite sure where that might be after skyrocketing to over 27% in March. With that report will also come the Fed's favorite inflation report with headline PCE expected to show an April rise of 0.6% and a new year-over-year rate of 3.5%. March's twelve-month pace was 2.3%. Without food and energy, core PCE is also expected to show a 0.6% monthly rise with the year-over-year rate rising to 2.9% from 1.8%. Will the "base effects" story and explanations of supply-chain disruptions keep the bond vigilantes at bay? Who knows, their behavior can be erratic.

Consumers can sometimes behave erratically, too, and we'll find out more about that when the University of Michigan issues its final, May report for its Consumer Sentiment Index on Friday morning. The earlier, preliminary reading of 82.8 is expected to be finalized at 83. Have a great week; 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	0.00	(0.01)	0.02	0.08	0.12	2yr	0.20	0.25	0.20	0.21	0.21	2Yr	0.09	0.09	0.09	-
6mo	0.02	(0.01)	0.03	0.09	0.15	3yr	0.34	0.44	0.35	0.37	0.47	3Yr	0.27	0.27	0.20	0.26
1yr	0.04	(0.01)	0.06	0.10	0.16	5yr	0.84	0.90	0.70	0.75	0.98	5Yr	0.84	0.84	0.83	0.77
2yr	0.15	(0.00)	0.16	0.16	0.17	7yr	1.27	1.26	1.04	1.10	1.42	7Yr	1.29	1.31	1.31	1.24
3yr	0.32	(0.01)	0.33	0.22	0.22	10yr	1.72	1.58	1.41	1.50	1.95	10Yr	1.68	1.74	1.73	1.67
5yr	0.81	(0.02)	0.82	0.40	0.34	15yr	2.16	1.85	1.67	1.77	2.40	June TBA MBS				
7yr	1.27	(0.03)	1.25	0.64	0.51	20yr	2.61	1.97	1.93	2.06	2.77	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.61	(0.04)	1.56	0.88	0.66	25yr	3.06	2.00	2.07	2.20	2.82	2.00	1.17	4.2y	1.86	
30yr	2.31	(0.06)	2.24	1.61	1.37	30yr		2.01	2.20	2.34	2.87	2.50	1.04	3.2y		
												3.00	0.95	2.8y	1.61	3.7y
												3.50	0.56	2.5y	1.62	3.4y
												4.00			1.64	3.3y
												4.50			1.87	3.5y

* 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	--	0.01	0.05	--
1 Month LIBOR	0.09	(0.01)	0.11	0.15	0.17
3 Month LIBOR	0.15	(0.01)	0.17	0.20	0.36
6 Month LIBOR	0.18	(0.01)	0.22	0.25	0.58
1 Year LIBOR	0.26	(0.01)	0.28	0.34	0.68
6 Month CD	0.16	0.06	0.19	0.28	0.45
1 Year CMT	0.04	(0.02)	0.07	0.11	0.16
REPO O/N	-0.02	(0.03)	0.01	0.09	0.11
REPO 1Wk	0.09	--	0.08	0.13	0.10
CoF Federal	0.823	--	0.845	1.003	1.333
11th D. CoF (Mar)	0.377	--	0.408	0.523	0.884

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.21	0.29	0.24
6mo	0.21	0.29	0.24
1yr	0.26	0.27	0.26
2yr	0.33	0.52	0.37
3yr	0.52	0.73	0.57
4yr	0.77	1.00	0.83
5yr	0.99	1.23	1.05
7yr	1.47	1.74	1.53
10yr	1.85	2.15	1.93
5yr Am	0.64		0.78
10yr Am	1.35		1.46

Fed Fund Futures	
Maturity	Rate
May-21	0.058
Jun-21	0.070
Jul-21	0.080
Aug-21	0.080
Sep-21	0.080
Oct-21	0.080
Nov-21	0.085
Dec-21	0.080
Jan-22	0.080
Feb-22	0.080
Mar-22	0.080

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
5/24	Chicago Fed Nat Activity Index	Apr	1.20	0.24	1.71	--
5/25	FHFA House Price Index MoM	Mar	1.2%	--	0.9%	--
5/25	House Price Purchase Index QoQ	1Q	--	--	3.8%	--
5/25	S&P CoreLogic CS 20-City YoY NSA	Mar	12.50%	--	11.94%	--
5/25	S&P CoreLogic CS US HPI YoY NSA	Mar	--	--	11.97%	--
5/25	New Home Sales	Apr	950k	--	1021k	--
5/25	Conf. Board Consumer Confidence	May	119.0	--	121.7	--
5/25	Conf. Board Present Situation	May	--	--	139.6	--
5/25	Conf. Board Expectations	May	--	--	109.8	--
5/26	MBA Mortgage Applications	5/21	--	--	1.2%	--
5/27	Durables Ex Transportation	Apr P	0.7%	--	1.9%	--
5/27	Cap Goods Ship Nondef Ex Air	Apr P	0.8%	--	1.6%	--
5/27	GDP Annualized QoQ	1Q S	6.5%	--	6.4%	--
5/27	Initial Jobless Claims	5/22	425k	--	444k	--
5/27	Personal Consumption	1Q S	10.9%	--	10.7%	--
5/27	Continuing Claims	5/15	3680k	--	3751k	--
5/27	GDP Price Index	1Q S	4.1%	--	4.1%	--
5/27	Core PCE QoQ	1Q S	2.3%	--	2.3%	--
5/27	Langer Consumer Comfort	5/23	--	--	55.3	--
5/27	Pending Home Sales NSA YoY	Apr	--	--	25.3%	--
5/28	Personal Income	Apr	-14.5%	--	21.1%	--
5/28	Real Personal Spending	Apr	0.1%	--	3.6%	--
5/28	PCE Deflator YoY	Apr	3.5%	--	2.3%	--
5/28	PCE Core Deflator YoY	Apr	2.9%	--	1.8%	--
5/28	MNI Chicago PMI	May	68.5	--	72.1	--
5/28	U. of Mich. Sentiment	May F	83.0	--	82.8	--
5/28	U. of Mich. Current Conditions	May F	--	--	90.8	--
5/28	U. of Mich. 1 Yr Inflation	May F	--	--	4.6%	--
6/1	Markit US Manufacturing PMI	May F	--	--	61.5	--
6/1	ISM Manufacturing	May	60.9	--	60.7	--
6/1	ISM Prices Paid	May	--	--	89.6	--
6/1	ISM New Orders	May	--	--	64.3	--
6/1	ISM Employment	May	--	--	55.1	--
6/3	Challenger Job Cuts YoY	May	--	--	-96.6%	--
6/3	ADP Employment Change	May	640k	--	742k	--
6/3	Nonfarm Productivity	1Q F	5.5%	--	5.4%	--
6/3	Unit Labor Costs	1Q F	-0.4%	--	-0.3%	--
6/3	ISM Services Index	May	62.3	--	62.7	--
6/4	Change in Nonfarm Payrolls	May	610k	--	266k	--
6/4	Two-Month Payroll Net Revision	May	--	--	-78k	--
6/4	Change in Private Payrolls	May	600k	--	218k	--
6/4	Change in Manufact. Payrolls	May	25k	--	-18k	--
6/4	Unemployment Rate	May	5.9%	--	6.1%	--
6/4	Average Hourly Earnings YoY	May	1.2%	--	0.3%	--
6/4	Average Weekly Hours All Employees	May	34.9	--	35.0	--
6/4	Labor Force Participation Rate	May	--	--	61.7%	--
6/4	Underemployment Rate	May	--	--	10.4%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.2	27.1	28.6	31.0	28.6	21.9
FH/FN 15y	11.6	37.5	44.4	47.9	35.1	23.3
GN 15y	25.3	19.9	21.1	19.4	21.3	19.1
FH/FN 20y	55.8	35.3	36.5	34.4	32.8	25.5
FH/FN 30y	9.4	25.5	57.1	58.8	58.5	55.3
GN 30y	9.5	21.7	45.3	50.9	52.6	30.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.3	18.8	19.4	20.2	21.6	20.1
FH/FN 15y	14.9	18.4	22.1	26.3	24.0	21.0
GN 15y	14.5	14.6	14.8	14.1	13.4	13.1
FH/FN 20y	13.6	16.7	16.6	16.8	17.1	16.6
FH/FN 30y	11.2	15.1	23.6	24.7	26.8	24.4
GN 30y	9.8	12.4	16.6	18.6	19.3	13.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	108.87	(0.34)	108.08	104.44	107.71
Euro	1.22	0.01	1.21	1.19	1.09
Dollar Index	89.92	(0.25)	90.86	92.23	99.86
Major Stock Indices					
Dow Jones	34,208	(174)	34,043	30,046	24,465
S&P 500	4,155.9	(18.0)	4,180.2	3,635.4	2,955.5
NASDAQ	13,471.0	41	14,016.8	12,036.8	9,324.6
Commodities					
Gold	1,884.3	16.7	1,777.0	1,804.6	1,735.5
Crude Oil	64.36	(1.91)	62.14	44.91	33.25
Natural Gas	2.84	(0.27)	2.73	2.78	1.73
Wheat	657.3	-42.5	710.3	611.3	508.8
Corn	649.3	-3.3	655.5	425.8	318.0

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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