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As the dust settles at the end of this week, we've learned a couple of things about the tone and temper of the bond market. For one, US Treasuries are firmly in the "this won't last" camp with respect to inflation. Despite an eye-opening spike to a 28 year high for core consumer price inflation, the yield on the 10yr T-Note fell below 1.50% to the lowest levels since early March. For now, the 3.8% reading for core CPI is widely viewed by bond market professionals as well as Fed officials as a "transitory" knock-on effect of the US economy's reopening from the COVID pandemic. By the end-of-summer, baseline effects will have faded away, supply lines will be repaired, access to low-cost sourcing of goods and services will come back online, the sharp snapback in demand will slow down, and inflation measures will revert to trend. That's the way the script reads anyway, and so far, the Treasury market buys that storyline.

Another thing we discovered is that despite massive deficit finance needs the US Treasury can still put away bond auctions like a champ. There was a healthy appetite for \$58 billion 3yr, \$38 billion 10yr, and \$24 billion 30yrs Treasuries that came to market. Even adjusted for the cost of currency hedges, US sovereign debt is the best relative value for global money, and Treasuries remain the safe-haven choice of nervous investors wishing to avoid the risk of irrational gamified stocks and/or crypto "currencies" (cyber-criminals notwithstanding). Time will tell if the demand for US debt will keep pace with ever-increasing supply. Or, more precisely, the necessary yield level that allows demand to keep pace.

From the Fed's perspective, all is going according to plan. In fact, the recent fedspeak is perfectly harmonious as policymakers sing from the same hymnal. After suggesting last fall that the Fed wasn't even thinking about thinking about raising rates, they've now moved to talking about talking about removing stimulus. Moreover, some like Dallas Fed President Kaplan make the point that the asset purchases will need to be adjusted in order to remove distortion in financial markets regardless of the inflation debate. Amen to that. Backstopping every type of security regardless of credit, or accepting as collateral any old piece of paper is the definition of moral hazard. The recent announcement that the Fed was unwinding their Corporate Credit Facility is welcome news to those who believe the crisis is over and markets need to trade without intervention.

Other notable data for the week included the Job Openings and Labor Turnover (JOLTS) report which showed that the number of available jobs climbed to 9.3 million during the last month, the highest data back to 2000, from an upwardly revised 8.3 million the prior month. The so-called "quits rate," the number of people who voluntarily left their jobs rose to a series high of 2.7%, suggesting that workers are growing more confident in their ability to find other employment. All good news for a labor market with employment still far below pre-pandemic levels. Finally, we hear this morning from the University of Michigan that US consumer sentiment rose by more than expected, and inflation expectations of those surveyed fell... providing a bit more comfort to the "transitory" crowd.

### US 10yr T-Note Yield: June '20 – Today



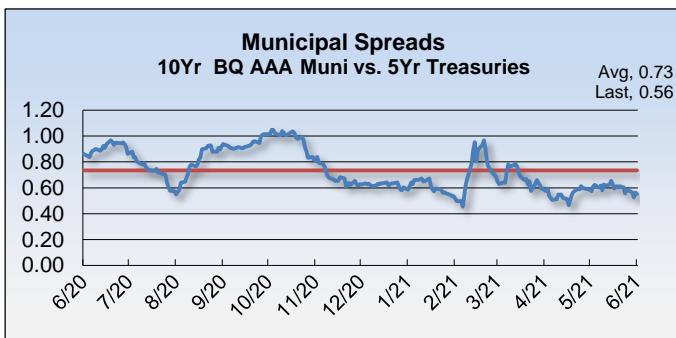
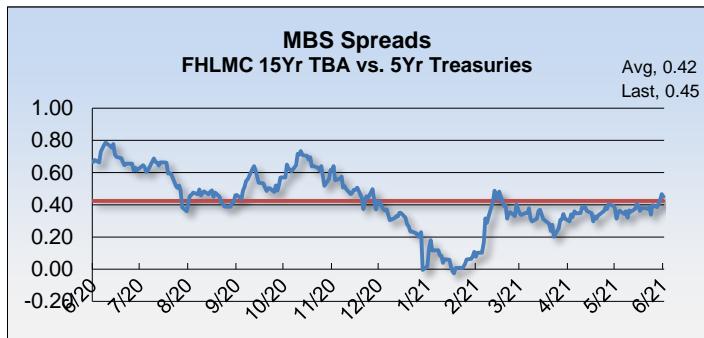
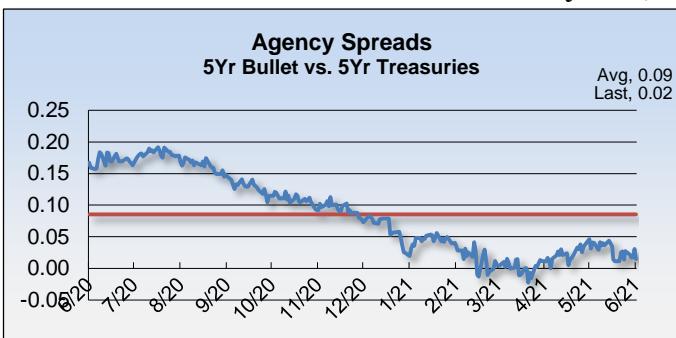
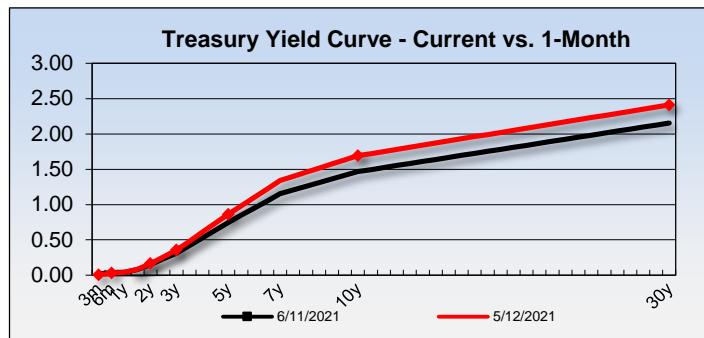
Next week we'll be treated to fresh retail sales data as well as producer prices, industrial production, and an assortment of housing market metrics. Expect all to continue grinding higher with another eyebrow-raising inflation print when PPI comes out Tuesday the 15th. The Fed's Open Market Committee (FOMC) meets next week as well.

# Baker Market Update

## Week in Review

The Baker Group

June 11, 2021



Treasury Market -- Historical						Fixed Rate Market											
Maty	Current	1Wk Change	Historical			Maty	N-Call /AL	US Swap	AAA BQ Muni		Tax Muni	Mty	Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp <sup>2</sup>	S-Corp <sup>3</sup>			3Mo	6mo	1Yr	2Yr	
3mo	0.02	0.00	0.01	0.07	0.18	2yr	0.19	0.22	0.11	0.12	0.19	2Yr	0.09	0.09	0.09	-	
6mo	0.04	0.00	0.03	0.08	0.19	3yr	0.32	0.40	0.22	0.24	0.40	3Yr	0.24	0.25	0.20	0.24	
1yr	0.04	(0.00)	0.04	0.08	0.19	5yr	0.75	0.80	0.56	0.60	0.82	5Yr	0.76	0.76	0.75	0.69	
2yr	0.15	0.00	0.16	0.12	0.20	7yr	1.14	1.12	0.87	0.92	1.23	7Yr	1.17	1.19	1.18	1.11	
3yr	0.31	0.01	0.30	0.18	0.24	10yr	1.51	1.42	1.25	1.33	1.74	10Yr	1.53	1.58	1.58	1.51	
5yr	0.75	(0.03)	0.80	0.37	0.32	15yr	1.88	1.69	1.46	1.55	2.23	July TBA MBS					
7yr	1.15	(0.07)	1.27	0.63	0.52	20yr	2.25	1.79	1.68	1.79	2.59	Cpn	15Yr -Yld/AL	30Yr -Yld/AL			
10yr	1.47	(0.09)	1.62	0.90	0.67	25yr	2.62	1.83	1.81	1.93	2.64	2.00	1.14	4.4y	1.79		
30yr	2.15	(0.08)	2.35	1.63	1.40	30yr	1.84	1.84	1.95	2.07	2.69	2.50	0.89	3.0y			

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	<b>0.25</b>	--	0.25	0.25	0.25
Primary Discount	<b>0.25</b>	--	0.25	0.25	0.25
2ndary Discount	<b>0.75</b>	--	0.75	0.75	0.75
Prime Rate	<b>3.25</b>	--	3.25	3.25	3.25
Sec. O.N. Finance	<b>0.01</b>	--	0.01	0.08	--
1 Month LIBOR	<b>0.07</b>	(0.01)	0.10	0.15	0.19
3 Month LIBOR	<b>0.12</b>	(0.01)	0.16	0.22	0.31
6 Month LIBOR	<b>0.16</b>	(0.01)	0.19	0.25	0.46
1 Year LIBOR	<b>0.24</b>	(0.00)	0.27	0.34	0.63
6 Month CD	<b>0.12</b>	0.03	0.16	0.31	0.43
1 Year CMT	<b>0.05</b>	0.01	0.05	0.10	0.18
REPO O/N	<b>0.01</b>	(0.01)	0.01	0.10	0.12
REPO 1Wk	<b>0.08</b>	0.02	0.09	0.08	0.10
CoF Federal	<b>0.823</b>	--	0.845	1.003	1.333
11th D. CoF (Apr)	<b>0.343</b>	--	0.377	0.503	0.740

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.21	0.32	0.24
6mo	0.21	0.30	0.25
1yr	0.27	0.28	0.27
2yr	0.34	0.52	0.38
3yr	0.48	0.68	0.55
4yr	0.70	0.91	0.79
5yr	0.89	1.11	1.00
7yr	1.32	1.59	1.45
10yr	1.68	1.97	1.82
5yr Am	0.60		0.75
10yr Am	1.23		1.38

Fed Fund Futures	
Maturity	Rate
Jun-21	0.063
Jul-21	0.075
Aug-21	0.080
Sep-21	0.080
Oct-21	0.080
Nov-21	0.080
Dec-21	0.080
Jan-22	0.080
Feb-22	0.080
Mar-22	0.080
Apr-22	0.085

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# Baker Market Update

## Week in Review



June 11, 2021

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
6/7	Consumer Credit	Apr	\$20,000b	\$18,612b	\$25,841b	\$18,584b
6/8	NFTB Small Business Optimism	May	101.0	99.6	99.8	--
6/8	Trade Balance	Apr	-\$68.7b	-\$68.9b	-\$74.4b	-\$75.0b
6/8	JOLTS Job Openings	Apr	8200k	9286k	8123k	8288k
6/9	MBA Mortgage Applications	6/4	--	-3.1%	-4.0%	--
6/9	Wholesale Inventories MoM	Apr F	0.8%	0.8%	0.8%	--
6/9	Wholesale Trade Sales MoM	Apr	--	0.8%	4.6%	4.3%
6/10	CPI MoM	May	0.5%	0.6%	0.8%	--
6/10	CPI Ex Food and Energy MoM	May	0.5%	0.7%	0.9%	--
6/10	CPI YoY	May	4.7%	5.0%	4.2%	--
6/10	CPI Ex Food and Energy YoY	May	3.5%	3.8%	3.0%	--
6/10	CPI Index NSA	May	268.68	269.20	267.05	--
6/10	CPI Core Index SA	May	275.06	275.72	273.70	--
6/10	Real Avg Weekly Earnings YoY	May	--	-2.2%	-4.4%	-1.7%
6/10	Real Avg Hourly Earnings YoY	May	--	-2.8%	-3.7%	--
6/10	Initial Jobless Claims	6/5	370k	376k	385k	--
6/10	Continuing Claims	5/29	3665k	3499k	3774k	3757k
6/10	Langer Consumer Comfort	6/6	--	55.4	55.6	--
6/10	Household Change in Net Worth	1Q	--	\$4997b	\$6925b	\$8064b
6/10	Monthly Budget Statement	May	-\$250.0b	-\$132.0b	-\$398.8b	--
6/11	U. of Mich. Sentiment	Jun P	84.2	86.4	82.9	--
6/11	U. of Mich. Current Conditions	Jun P	91.3	90.6	89.4	--
6/11	U. of Mich. Expectations	Jun P	78.7	83.8	78.8	--
6/11	U. of Mich. 1 Yr Inflation	Jun P	4.7%	4.0%	4.6%	--
6/11	U. of Mich. 5-10 Yr Inflation	Jun P	--	2.8%	3.0%	--
6/15	Retail Sales Advance MoM	May	-0.5%	--	0.0%	--
6/15	Retail Sales Ex Auto and Gas	May	0.0%	--	-0.8%	--
6/15	Retail Sales Control Group	May	-0.6%	--	-1.5%	--
6/15	Empire Manufacturing	Jun	22.0	--	24.3	--
6/15	PPI Final Demand YoY	May	6.2%	--	6.2%	--
6/15	PPI Ex Food and Energy YoY	May	4.8%	--	4.1%	--
6/15	PPI Ex Food, Energy, Trade YoY	May	--	--	4.6%	--
6/15	Capacity Utilization	May	75.1%	--	74.9%	74.6%
6/15	Manufacturing (SIC) Production	May	0.7%	--	0.4%	--
6/15	Business Inventories	Apr	-0.1%	--	0.3%	--
6/15	NAHB Housing Market Index	Jun	83	--	83	--
6/15	Total Net TIC Flows	Apr	--	--	\$146.4b	--
6/15	Net Long-term TIC Flows	Apr	--	--	\$262.2b	--
6/16	Building Permits	May	1730k	--	4760k	1733k
6/16	Housing Starts	May	1640k	--	1569k	--
6/16	Import Price Index YoY	May	--	--	10.6%	--
6/16	Export Price Index YoY	May	--	--	14.4%	--
6/16	FOMC Rate Decision (Lower Bound)	6/16	0.00%	--	0.00%	--
6/16	FOMC Rate Decision (Upper Bound)	6/16	0.25%	--	0.25%	--
6/16	Interest Rate on Excess Reserves	6/17	0.10%	--	0.10%	--
6/17	Philadelphia Fed Business Outlook	Jun	30.0	--	31.5	--
6/17	Leading Index	May	1.1%	--	1.6%	--

MBS Prepayments <sup>4</sup>						
	3-Month CPR					
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	16.7	26.7	28.2	31.0	28.3	25.4
FH/FN 15y	11.9	35.1	42.4	47.4	35.5	23.9
GN 15y	26.0	20.7	20.6	19.4	21.4	19.4
FH/FN 20y	54.9	31.8	34.7	33.8	33.0	25.4
FH/FN 30y	7.1	23.9	54.2	56.9	57.9	55.1
GN 30y	9.0	22.0	42.4	50.6	54.9	31.0

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.0	17.1	18.6	20.1	18.1	16.5
FH/FN 15y	13.8	20.1	20.4	30.0	19.2	22.2
GN 15y	18.9	14.9	15.0	14.2	13.4	13.1
FH/FN 20y	12.5	17.2	19.7	23.6	27.4	18.5
FH/FN 30y	10.2	17.8	28.8	30.3	30.7	29.4
GN 30y	9.7	16.7	24.5	28.9	30.9	21.1

Other Markets						
Index	Current	1Wk Chng	Historical			
			1 Mo	6 Mo	1 Yr	
Currencies						
Japanese Yen	109.66	0.14	108.62	104.04	106.87	
Euro	1.21	(0.00)	1.21	1.21	1.13	
Dollar Index	90.45	0.31	90.14	90.98	96.73	
Major Stock Indices						
Dow Jones	34,511	(245)	34,269	30,046	25,128	
S&P 500	4,244.8	14.9	4,152.1	3,663.5	3,002.1	
NASDAQ	14,048.5	234	13,389.4	12,377.9	9,492.7	
Commodities						
Gold	1,885.4	(4.4)	1,836.1	1,839.8	1,732.0	
Crude Oil	70.49	0.87	65.28	46.57	36.34	
Natural Gas	3.26	0.17	2.96	2.59	1.81	
Wheat	673.5	-14.3	759.8	608.3	499.3	
Corn	679.3	-3.5	759.5	424.3	329.8	

Notes						
1 Call Agg = 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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