



Dale Sheller

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Ferris Bueller once famously said, “Life moves pretty fast. If you don’t stop and look around once in a while, you could miss it”. This quote feels appropriate this week when watching the strong rally in the Treasury market that has occurred. In just under 60 days, the 10-Year Treasury yield has fallen by more than 100 basis points. Just this week, the 10-Year Treasury yield has fallen over 30 basis points. This morning the 10-Year Treasury bond is yielding 3.91% with the 2-Year Treasury yielding 4.40%. Here is your week in review!

All eyes were on the last Fed meeting of 2023 which concluded Wednesday with the Fed leaving rates unchanged. This is the third consecutive “pause” from the Fed. Fed Chairman Powell continued to dance around questions asking about potential rate cuts early next year. He refused to even say the words, “rate cuts”. Instead, he said they may soon begin to talk about “dialing back policy accommodation”. These words seemed to be all the market needed to hear to spark the strong treasury rally. An updated Fed Dot Plot was released Wednesday with the median dot lowered by 50bp to 4.5-4.75% from 5-5.25% in September implying 75bp of rate cuts next year. Additionally, several of the higher dots in 2025 and beyond have now lowered towards the consensus implying less influence of the “higher for longer caucus” within the FOMC. This morning, the Fed Funds futures market is calculating a 75% rate cut at the March 2024 meeting.

On Tuesday, the Consumer Price Index (CPI) rose 0.1% in November, slightly higher than expectations for no change, while Core CPI rose 0.3% vs expectations for 0.2%. Compared to a year ago, CPI rose 3.1% and Core CPI rose 4.0%, both in-line with expectations. There were big declines in energy prices, especially gasoline, and smaller declines in apparel, commodities, and new cars. The closely watched shelter component rose from the prior month despite the moderation in house prices and the continued decline in national rents. The so-called “Supercore” (core services less housing), also ticked up slightly to 3.9%, which is only the second acceleration for this component this year.

Wednesday morning the BLS reported this morning that wholesale prices rose less than expected in November as inflation continues to trend lower towards the Fed’s target of 2%. PPI was unchanged in November (est = 0.0%) and up just 0.9% from a year ago (est = 1.0%). Excluding food and energy, Core CPI was also unchanged (est = 0.2%) and up 2.0% from a year ago (est = 2.2%). While PPI is less important to the Fed and does not normally move markets, wholesale inflation does tend to lead consumer inflation as the cost of inputs eventually feed into the final product or service.

Thursday’s release of retail sales data for the month of November was surprisingly strong. Retail sales grew 0.3% in November with economists expecting a 0.1% decline. November retail sales excluding auto and gas increased by 0.6% compared to estimates for a 0.2% decrease.

(Continued)



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Next week's economic releases include data on building permits, housing starts, and existing home sales. We will wrap up next week with updated releases on personal income and personal spending as well as inflation data from the Personal Consumption Expenditures index.

This weekend kicks off the start of College Football Bowl Season! There are over 40 bowl games to enjoy this holiday season, including some of my favorites such as the Roofclaim.com Boca Raton Bowl and the Tony the Tiger Sun Bowl! Have a great weekend!

Fed Funds Rate, 2-Year Treasury Yield and 10-Year Treasury Yield (2004 to Present)



Source: Bloomberg, L.P.

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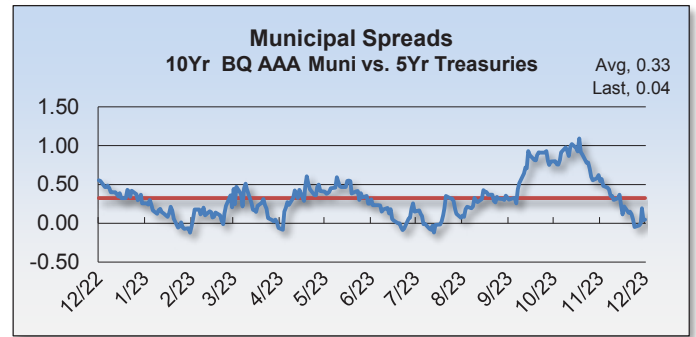
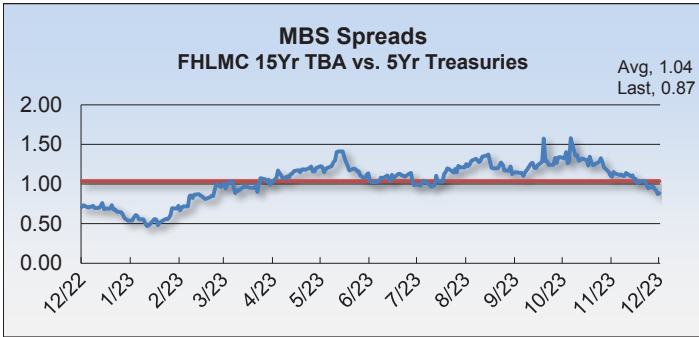
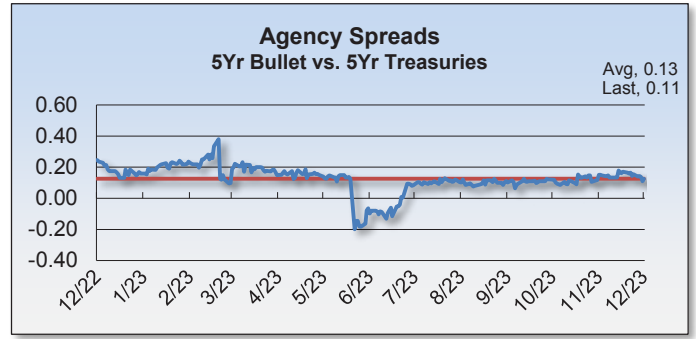
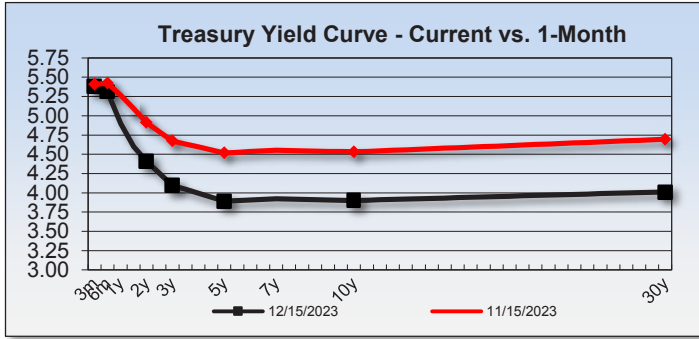
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Treasury Market -- Historical						Fixed Rate Market											
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro					
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr	
3mo	5.38	(0.00)	5.42	5.22	4.31	2yr	4.47	4.20	3.61	3.84	4.58	2Yr	5.20	5.20	5.20	-	
6mo	5.31	(0.08)	5.44	5.31	4.67	3yr	4.18	3.87	3.42	3.64	4.47	3Yr	4.89	4.90	4.80	4.89	
1yr	4.90	(0.23)	5.27	5.19	4.63	5yr	3.97	3.62	3.26	3.47	4.24	5Yr	4.77	4.77	4.76	4.70	
2yr	4.41	(0.31)	4.91	4.65	4.24	7yr	4.16	3.55	3.26	3.47	4.45	7Yr	4.80	4.83	4.82	4.75	
3yr	4.09	(0.36)	4.67	4.24	4.03	10yr	4.17	3.54	3.30	3.52	4.52	10Yr	4.83	4.89	4.88	4.82	
5yr	3.89	(0.35)	4.52	3.91	3.62	15yr	4.18	3.56	4.05	4.31	4.72	January TBA MBS					
7yr	3.92	(0.35)	4.56	3.82	3.56	20yr	4.20	3.54	4.48	4.77	5.08	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.90	(0.33)	4.53	3.72	3.45	25yr	4.23	3.45	4.74	5.04	5.14		3.00	4.84	5.3y	4.80	
30yr	4.01	(0.29)	4.70	3.84	3.50	30yr	4.23	3.36	5.00	5.32	5.19		3.50	4.61	5.3y		
													4.00	4.51	5.5y	4.89	9.5y
													4.50	4.67	5.2y	5.05	9.0y
													5.00			5.21	8.0y
												5.50			5.40	6.7y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	5.50	--	5.50	5.25	4.50
Primary Discount	5.50	--	5.50	5.25	4.00
2ndary Discount	6.00	--	6.00	5.75	4.50
Prime Rate	8.50	--	8.50	8.25	7.50
Sec. O.N. Finance	5.31	(0.01)	5.32	5.05	--
1 Month LIBOR	5.48	(0.00)	5.44	5.19	4.32
3 Month LIBOR	5.65	0.00	5.64	5.55	4.77
6 Month LIBOR	5.76	0.02	5.85	5.65	5.21
1 Year LIBOR	6.04	0.12	5.73	5.48	3.62
6 Month CD	5.41	(0.12)	5.62	5.51	5.19
1 Year CMT	4.90	(0.15)	5.24	5.27	4.64
REPO O/N	5.36	(0.06)	5.37	5.10	4.34
REPO 1Wk	5.36	(0.02)	5.36	5.14	4.39
CoF Federal	3.814	--	3.743	3.302	2.278
11th D. CoF (Dec)	0.223	--	0.218	0.282	0.460

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	5.49	5.53	5.55
6mo	5.41	5.42	5.41
1yr	5.01	5.02	5.10
2yr	4.54	4.59	4.55
3yr	4.28	4.33	4.30
4yr	4.20	4.25	4.22
5yr	4.08	4.15	4.11
7yr	4.35	4.43	4.40
10yr	4.47	4.57	4.55
5yr Am	4.15		4.31
10yr Am	4.21		4.43

Fed Fund Futures	
Maturity	Rate
Dec-23	5.330
Jan-24	5.330
Feb-24	5.295
Mar-24	5.235
Apr-24	5.120
May-24	4.905
Jun-24	4.745
Jul-24	4.650
Aug-24	4.440
Sep-24	4.350
Oct-24	4.215

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/11	NY Fed 1-Yr Inflation Expectations	Nov	--	3.36%	3.57%	--
12/12	NFIB Small Business Optimism	Nov	90.7	90.6	90.7	--
12/12	CPI MoM	Nov	0.0%	0.1%	0.0%	--
12/12	CPI Ex Food and Energy MoM	Nov	0.3%	0.3%	0.2%	--
12/12	CPI YoY	Nov	3.1%	3.1%	3.2%	--
12/12	CPI Ex Food and Energy YoY	Nov	4.0%	4.0%	4.0%	--
12/12	CPI Index NSA	Nov	306.94	307.05	307.67	--
12/12	CPI Core Index SA	Nov	312.14	312.25	311.37	--
12/12	Real Avg Hourly Earning YoY	Nov	--	0.8%	0.8%	--
12/12	Real Avg Weekly Earnings YoY	Nov	--	0.5%	0.0%	-0.1%
12/13	MBA Mortgage Applications	12/8	--	7.4%	2.8%	--
12/13	PPI Final Demand MoM	Nov	0.0%	0.0%	-0.5%	-0.4%
12/13	PPI Ex Food and Energy MoM	Nov	0.2%	0.0%	0.0%	--
12/13	PPI Ex Food, Energy, Trade MoM	Nov	0.2%	0.1%	0.1%	--
12/13	PPI Final Demand YoY	Nov	1.0%	0.9%	1.3%	1.2%
12/13	PPI Ex Food and Energy YoY	Nov	2.2%	2.0%	2.4%	2.3%
12/13	PPI Ex Food, Energy, Trade YoY	Nov	2.8%	2.5%	2.9%	2.8%
12/13	FOMC Rate Decision (Upper Bound)	12/13	5.50%	5.50%	5.50%	--
12/13	FOMC Rate Decision (Lower Bound)	12/13	5.25%	5.25%	5.25%	--
12/13	Interest on Reserve Balances Rate	12/14	5.40%	5.40%	5.40%	--
12/14	Retail Sales Ex Auto and Gas	Nov	0.2%	0.6%	0.1%	--
12/14	Retail Sales Control Group	Nov	0.2%	0.4%	0.2%	0.0%
12/14	Initial Jobless Claims	12/9	220k	202k	220k	221k
12/14	Continuing Claims	12/2	1879k	1876k	1861k	1856k
12/14	Import Price Index YoY	Nov	-2.1%	-1.4%	-2.0%	-1.8%
12/14	Export Price Index YoY	Nov	-5.2%	-5.2%	-4.9%	-4.7%
12/14	Business Inventories	Oct	-0.1%	-0.1%	0.4%	0.2%
12/15	Empire Manufacturing	Dec	2.0	-14.5	9.1	--
12/15	Capacity Utilization	Nov	79.1%	78.8%	78.9%	78.7%
12/15	Manufacturing (SIC) Production	Nov	0.5%	0.3%	-0.7%	-0.8%
12/15	S&P Global US Manufacturing PMI	Dec P	49.5	48.2	49.4	--
12/15	S&P Global US Services PMI	Dec P	50.7	51.3	50.8	--
12/15	S&P Global US Composite PMI	Dec P	50.5	51.0	50.7	--
12/15	Net Long-term TIC Flows	Oct	--	--	-\$1.7b	--
12/15	Total Net TIC Flows	Oct	--	--	-\$67.4b	--
12/18	NAHB Housing Market Index	Dec	37	--	34	--
12/19	Building Permits	Nov	1460k	--	1487k	1498k
12/19	Housing Starts	Nov	1360k	--	1372k	--
12/20	Existing Home Sales	Nov	3.78m	--	3.79m	--
12/20	Conf. Board Consumer Confidence	Dec	104	--	102	--
12/20	Conf. Board Present Situation	Dec	--	--	138.2	--
12/21	GDP Annualized QoQ	3Q T	5.2%	--	5.2%	--
12/21	Personal Consumption	3Q T	3.6%	--	3.6%	--
12/21	GDP Price Index	3Q T	3.6%	--	3.6%	--
12/21	Core PCE Price Index QoQ	3Q T	2.3%	--	2.3%	--
12/21	Leading Index	Nov	-0.4%	--	-0.8%	--
12/22	Real Personal Spending	Nov	0.2%	--	0.2%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	3.0	3.5	4.0	4.5	5.0	5.5
FN 10y	12.3	12.1	13.7	11.6	12.6	19.8
FH/FN 15y	6.7	7.7	11.1	14.5	22.7	35.6
GN 15y	13.3	15.7	19.8	24.2	40.4	46.0
FH/FN 20y	5.6	6.5	7.0	8.8	11.1	12.5
FH/FN 30y	5.4	4.4	5.1	6.5	5.5	6.5
GN 30y	5.6	7.2	5.8	6.1	6.3	7.0
CPR Projections						
Type	3.0	3.5	4.0	4.5	5.0	5.5
FN 10y	12.6	12.9	12.6	11.0	11.9	12.9
FH/FN 15y	7.0	8.2	10.5	14.1	15.2	16.6
GN 15y	9.0	11.6	12.0	12.6	12.2	14.9
FH/FN 20y	6.3	7.1	8.4	9.4	10.3	11.8
FH/FN 30y	5.6	6.1	7.0	8.0	9.4	10.7
GN 30y	6.5	6.6	8.8	9.0	8.7	10.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	141.52	(3.43)	150.46	141.15	136.77
Euro	1.09	0.02	1.09	1.08	1.06
Dollar Index	102.39	(1.62)	104.39	102.12	104.56
Major Stock Indices					
Dow Jones	37,156	909	34,991	34,408	33,202
S&P 500	4,713.4	109.0	4,502.9	4,425.8	3,895.8
NASDAQ	14,825.7	422	14,103.8	13,782.8	10,810.5
Commodities					
Gold	2,043.4	45.1	1,964.3	1,957.8	1,777.2
Crude Oil	71.12	(0.11)	76.66	70.62	76.11
Natural Gas	2.49	(0.09)	3.19	2.53	6.97
Wheat	623.0	8.0	560.5	661.5	757.3
Corn	479.5	13.8	470.8	623.3	653.5

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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