

Baker Market Update: Week in Review

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Today falls uniquely between two contrasts in the karmatic spectrum of things. March 15, the Ides of March, was made infamous by the conspiratorial murder of Julius Caesar at the hands of trusted friends, and most certainly represents a low point in the fortunes of those not smiled upon by fate. Tomorrow, however, is St. Patrick's Day, and for those that celebrate the eradication of serpents from the Emerald Isle, the positive karma positively flows. Often into vessels of one-pint capacity.

Our domestic economy is, perhaps, similarly situated. The soul-crushing depths of the Great Recession, are experiencing a reincarnation, it is believed by many, into a spirit-lifting glorification of economic prosperity. Just ask the University of Michigan. The preliminary results of its Consumer Sentiment Survey were released this morning and they are definitely flashing "green". The sub-index of Current Conditions might make some believe that consumers have come upon a pot o' gold. The previous value of 115 has sprung to a dizzying height of 123. Bloomberg data only goes back to 1978, and over that time, it has not been higher. The overall Sentiment Index also experienced a significant uplift to 102 from 99.7 and it hasn't seen a higher point since 2004. It feels good to feel good.

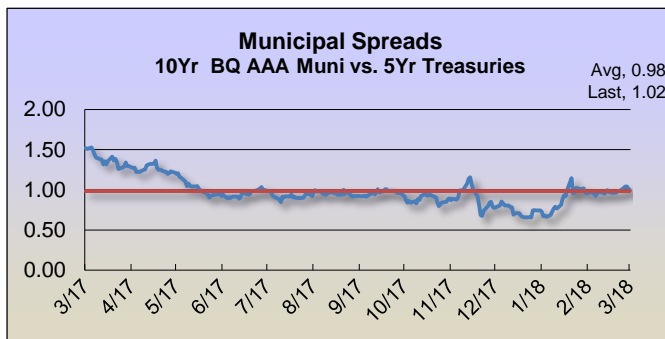
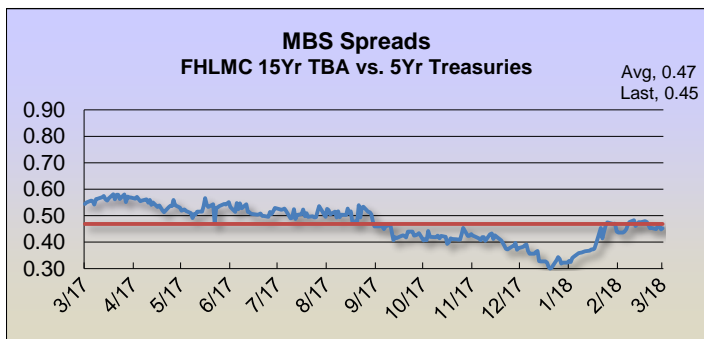
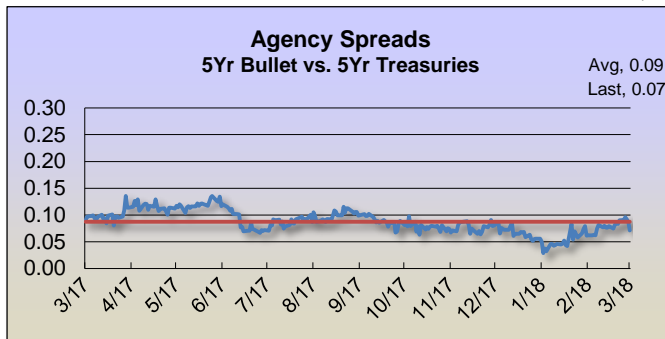
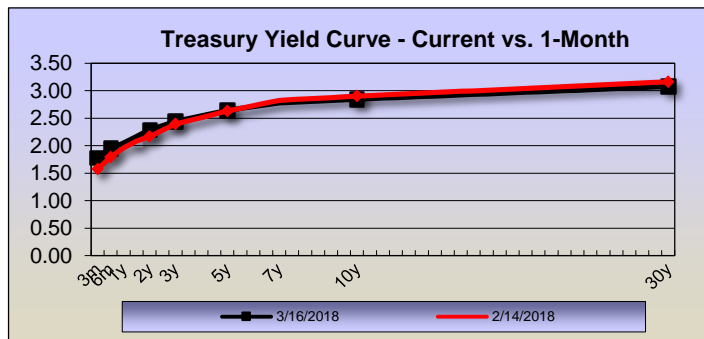
And, the wee businesses are feeling *really* good. The National Federation of Independent Businesses came out with their Small Business Optimism Index and it, too, rose up to meet us with a new and higher level of 107.6; a significant improvement from last month's 106.9. One can't help but wonder, though, if that measure starts to fall, would it be called the Pessimism Index? Perish the thought!

It's looking more and more like disinflation might be perishing as we learned that the Consumer Price Index, at its core, rose by 0.2% in February and stands at an unchanged year-over-year rate of 1.8%. In addition, the cost of Imports rose by 0.4% last month with the price of Exports only rising by 0.2%. More importantly, inflation adjusted Real Average Hourly Earnings rose by almost a half-percent and that is something everyone wants to see. So, what did this increase in purchasing power purchase? Well, that's a good question because Retail Sales fell by 0.1% last month and that makes February the third month in a row of declines in that measurement and there's nothing magically delicious about that.

But, is there any magic left in the housing market? Housing Starts fell 7% last month and Building Permits declined by almost 6%. No one likes to pile on, but the National Association of Home Builders Housing Market Index fell, slightly and unexpectedly, to 70 from 72. Mounting a comeback of sorts was Industrial Production. A 1.1% rise in that output ties in nicely with a 0.7% rise in Capacity Utilization to a new level of 78.1%.

Also, new job openings are on the rise and that usually means good news. Even before the recent vacancy in the President's cabinet was known, the Bureau of Labor Statistics announced in its Job Openings and Labor Turnover Survey (JOLTS) that the number of unfilled positions rose to 6,312k from 5,667k. As for former Secretary of State Rex Tillerson, he may have done well to heed these words penned by Max Ehrmann nearly a century ago: "*Avoid loud and aggressive persons, for they are vexations to the spirit*".

No one, however, can avoid the Fed. The Committee meets next week and another quarter-point nudge in the Funds rate is fully priced in. Less clear is the degree to which the twin prospect of a trade war and rising budgetary deficits will have on the economy and on financial markets. The Chairman's Press Conference will follow Wednesday's rate announcement and perhaps some burning questions will be answered. Was Cassius an honorable man? Are leprechauns real? Will the Ten-Year get to 3%? *Your* karma can be whatever you want it to be. Until next 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	1.77	0.11	1.59	1.03	0.72	2yr	2.40	2.60	2.21	2.35	2.48	2Yr	1.94	1.94	1.94	-
6mo	1.94	0.07	1.82	1.17	0.87	3yr	2.51	2.71	2.38	2.53	2.66	3Yr	2.10	2.11	2.11	2.10
1yr	2.05	0.03	1.98	1.29	0.99	5yr	2.76	2.79	2.81	2.99	3.01	5Yr	2.19	2.22	2.24	2.24
2yr	2.29	0.03	2.19	1.38	1.33	7yr	2.92	2.83	3.08	3.28	3.26	7Yr	2.42	2.47	2.52	2.53
3yr	2.44	0.01	2.38	1.53	1.57	10yr	3.12	2.89	3.50	3.73	3.52	10Yr	2.57	2.62	2.69	2.72
5yr	2.64	(0.01)	2.63	1.81	2.05	15yr	3.23	2.95	3.86	4.11	3.70	April TBA MBS				
7yr	2.78	(0.03)	2.81	2.03	2.35	20yr	3.33	2.97	4.09	4.35	3.77	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.85	(0.05)	2.88	2.20	2.54	25yr	3.43	2.96	4.17	4.44	3.82	2.00	2.99	5.5y		
30yr	3.08	(0.08)	3.13	2.77	3.15	30yr		2.94	4.26	4.53	3.86	2.50	2.99	5.5y		
												3.00	3.06	5.3y	3.39	9.9y
												3.50	2.97	4.0y	3.53	9.1y
												4.00			3.60	7.4y
												4.50			3.59	6.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.50	--	1.50	1.25	1.00
Primary Discount	2.00	--	2.00	1.75	1.25
2ndary Discount	2.50	--	2.50	2.25	1.75
Prime Rate	4.50	--	4.50	4.25	4.00
1 Month LIBOR	1.79	0.07	1.59	1.23	0.93
3 Month LIBOR	2.15	0.09	1.85	1.32	1.14
6 Month LIBOR	2.32	0.08	2.06	1.46	1.43
1 Year LIBOR	2.59	0.07	2.34	1.72	1.82
6 Month CD	2.34	0.09	2.10	1.43	1.41
1 Year CMT	2.07	0.02	1.99	1.30	1.02
REPO O/N	1.59	0.02	1.35	1.12	0.65
REPO 1Wk	1.66	0.16	1.51	1.19	0.74
CoF Federal	1.606	--	1.551	1.397	1.170
11th D. CoF (Jan)	0.777	--	0.753	0.707	0.616

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	1.98	2.10	1.96	1.98	Mar-18	1.500
6mo	2.11	2.23	2.12	2.24	Apr-18	1.670
1yr	2.35	2.33	2.31	2.43	May-18	1.685
2yr	2.54	2.71	2.58	2.74	Jun-18	1.780
3yr	2.67	2.86	2.76	2.88	Jul-18	1.860
4yr	2.79	2.99	2.88	3.01	Aug-18	1.890
5yr	2.86	3.07	2.95	3.06	Sep-18	1.900
7yr	3.05	3.30	3.14	3.19	Oct-18	2.030
10yr	3.25	3.52	3.34	3.39	Nov-18	2.060
5yr Am	2.73		2.81	2.97	Dec-18	2.100
10yr Am	3.07		3.14	3.29	Jan-19	2.155

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
03/12	Monthly Budget Statement	Feb	-\$216.0b	-\$215.2b	-\$192.0b	--
03/13	NFIB Small Business Optimism	Feb	107.10	107.60	106.90	--
03/13	CPI YoY	Feb	2.20%	2.20%	2.10%	--
03/13	CPI Ex Food and Energy YoY	Feb	1.80%	1.80%	1.80%	--
03/13	CPI Index NSA	Feb	248.93	248.99	247.87	--
03/13	CPI Core Index SA	Feb	255.80	255.75	255.29	--
03/13	Real Avg Weekly Earnings YoY	Feb	--	0.60%	0.40%	0.60%
03/13	Real Avg Hourly Earning YoY	Feb	--	0.40%	0.80%	0.70%
03/14	MBA Mortgage Applications	3/9	--	0.90%	0.30%	--
03/14	Retail Sales Ex Auto and Gas	Feb	0.30%	0.30%	-0.20%	-0.10%
03/14	Retail Sales Control Group	Feb	0.40%	0.10%	0.00%	--
03/14	PPI Final Demand YoY	Feb	2.80%	2.80%	2.70%	--
03/14	PPI Ex Food and Energy YoY	Feb	2.60%	2.50%	2.20%	--
03/14	PPI Ex Food, Energy, Trade YoY	Feb	--	2.70%	2.50%	--
03/14	Business Inventories	Jan	0.60%	0.60%	0.40%	0.60%
03/15	Empire Manufacturing	Mar	15.00	22.50	13.10	--
03/15	Import Price Index YoY	Feb	3.50%	3.50%	3.60%	3.40%
03/15	Export Price Index YoY	Feb	--	3.30%	3.40%	--
03/15	Initial Jobless Claims	3/10	228k	226k	234k	230k
03/15	Continuing Claims	3/3	1903k	1879k	1870k	1875k
03/15	Philadelphia Fed Business Outlook	Mar	23.00	22.30	25.80	--
03/15	Bloomberg Consumer Comfort	3/11	--	56.20	56.80	--
03/15	NAHB Housing Market Index	Mar	72.00	70.00	72.00	71.00
03/15	Total Net TIC Flows	Jan	--	\$119.7b	-\$119.3b	-\$122.5b
03/15	Net Long-term TIC Flows	Jan	--	\$62.1b	\$27.3b	\$23.3b
03/16	Housing Starts	Feb	1290k	1236k	1326k	1329k
03/16	Building Permits	Feb	1320k	1298k	1396k	1377k
03/16	Manufacturing (SIC) Production	Feb	0.50%	1.20%	0.00%	-0.20%
03/16	Capacity Utilization	Feb	77.70%	78.10%	77.50%	77.40%
03/16	JOLTS Job Openings	Jan	5917.00	6312.00	5844.00	5667.00
03/16	U. of Mich. Current Conditions	Mar P	--	122.80	114.90	--
03/16	U. of Mich. 1 Yr Inflation	Mar P	--	2.90%	2.70%	--
03/21	Current Account Balance	4Q	-\$125.0b	--	-\$100.6b	--
03/21	Existing Home Sales	Feb	5.40m	--	5.38m	--
03/21	FOMC Rate Decision (Upper Bound)	3/21	1.75%	--	1.50%	--
03/21	FOMC Rate Decision (Lower Bound)	3/21	1.50%	--	1.25%	--
03/22	Initial Jobless Claims	3/17	225k	--	226k	--
03/22	Continuing Claims	3/10	--	--	1879k	--
03/22	FHFA House Price Index MoM	Jan	0.30%	--	0.30%	--
03/22	Bloomberg Economic Expectations	Mar	--	--	54.50	--
03/22	Bloomberg Consumer Comfort	3/18	--	--	56.20	--
03/22	Markit US Manufacturing PMI	Mar P	55.50	--	55.30	--
03/22	Leading Index	Feb	0.40%	--	1.00%	--
03/22	Markit US Composite PMI	Mar P	--	--	55.80	--
03/23	Durables Ex Transportation	Feb P	0.50%	--	-0.30%	--
03/23	Cap Goods Ship Nondef Ex Air	Feb P	0.60%	--	-0.10%	--
03/23	New Home Sales	Feb	620k	--	593k	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.9	12.1	14.2	15.9	23.8	30.4
FH/FN 15y	6.9	7.8	9.2	11.2	14.0	18.7
GN 15y	9.2	9.6	11.7	11.8	12.9	13.5
FH/FN 20y		4.8	7.0	8.7	10.6	13.2
FH/FN 30y	3.1	4.7	6.4	8.5	11.1	13.6
GN 30y	5.7	9.0	11.3	12.0	14.1	16.4
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.3	11.5	12.1	17.2	19.4	21.5
FH/FN 15y	6.9	7.6	8.6	11.2	22.1	25.0
GN 15y	6.7	8.2	11.3	14.0	12.5	13.0
FH/FN 20y	10.2	6.3	7.0	8.8	10.9	14.4
FH/FN 30y	5.0	5.2	6.0	7.1	9.9	12.9
GN 30y	5.6	7.8	8.8	11.1	14.9	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	106.13	(0.69)	106.21	111.57	113.31
Euro	1.23	(0.00)	1.24	1.20	1.08
Dollar Index	90.31	0.22	89.10	91.87	100.36
Major Stock Indices					
Dow Jones	24,976	(360)	25,219	22,268	20,935
S&P 500	2,758.1	(28.5)	2,732.2	2,500.2	2,381.4
NASDAQ	7,506.8	(54)	7,239.5	6,448.5	5,900.8
Commodities					
Gold	1,311.0	(13.0)	1,353.2	1,321.3	1,227.1
Crude Oil	61.23	(0.81)	61.68	49.89	48.75
Natural Gas	2.68	(0.06)	2.56	3.02	2.90
Wheat	470.8	-18.3	457.8	449.0	436.0
Corn	384.0	1.0	367.5	354.8	366.0

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (21% Fed, 0.5% CoF)	
3 S-Corp TEY Muni (29.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

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