

## Week in Review

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This chart indicates the relative price movements over the last twelve months, comparing FHLMC 30Yr 6% MBS versus FHLMC 15Yr 4.5% MBS and FHLMC 2.5% agency note and the 10Yr Treasury Note. Concerns about increased Treasury supply and fears of imminent inflation have driven down the price of the 10Yr Treasury Note. Non-Treasury bonds, especially higher-coupon agency MBS's have maintained their values quite well over the past six months.

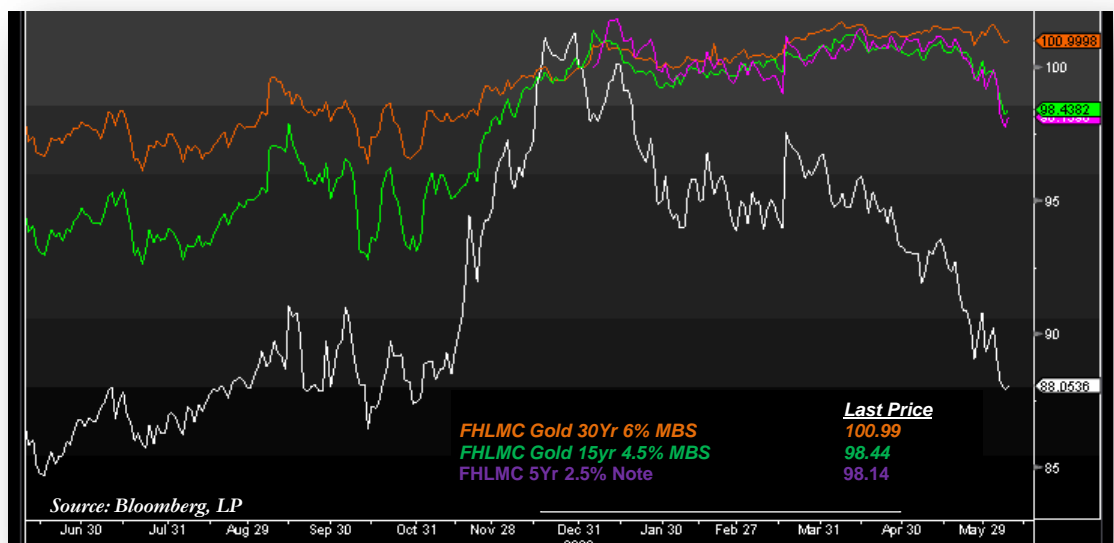
Following last week's rout in the Treasury market and investor concerns about supply, yields pushed slightly lower on yesterday's strong 30Yr Bond auction results. With high demand and a bid-to-cover ratio of 2.7 on the auction, Treasuries recovered as the high yield auction bid on the 30Yr Treasury Bond was 4.72%. Currently, the 10Yr Treasury Note is ending the week at 3.79%, and the 30Yr Bond closed at 4.64%. Elsewhere in the market, higher coupon FHLMC 15Yr 6% MBS rose in price earlier in the week and is up about 4/32's since last Friday's close. Lower coupon FHLMC 15yr 4% MBS on the other hand experienced more volatility and tended to move more in tandem with the Treasury markets.

Retail sales in May rose for the first time in three months, stemming from slashed prices at auto dealerships and the rise in prices at the pump. The month of May saw crude oil rise 25% with current prices sitting just over \$72/bbl, whereas gasoline is up 22% for the month, currently around \$2.639/gln. Initial jobless claims for the week ending last Saturday fell 24,000 to 601,000. The total number of people receiving jobless benefits rose to a record high of 6.816 million.

On Wednesday, the Fed released their summary of current economic conditions for each Fed district, better known as the Beige Book, stating that "economic conditions remained weak or deteriorated further" since mid-April. Five of the twelve districts also "noted that the downward trend is showing signs of moderating".

Next week, both wholesale and retail prices are expected to see increases, even after food and energy are excluded. Core wholesale prices in May are expected to maintain a 0.1% rate, while the year-over-year rate should slow from 3.4% to 3.2%. Economists expect core retail prices in May to rise a just 0.1% rate, whereas the change since last year should slow from 1.9% to 1.8%. Industrial production for last month is expected to see continued declines for the seventh straight month, coupled with an expected decline capacity utilization.

Market Price Comparison- Last 12 Months



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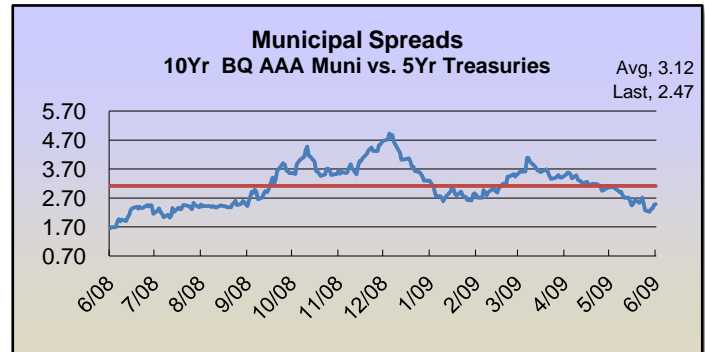
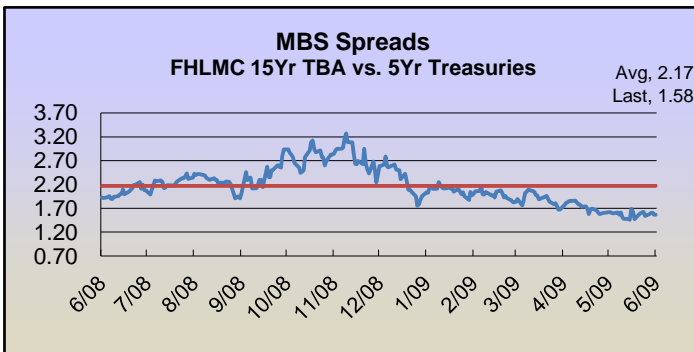
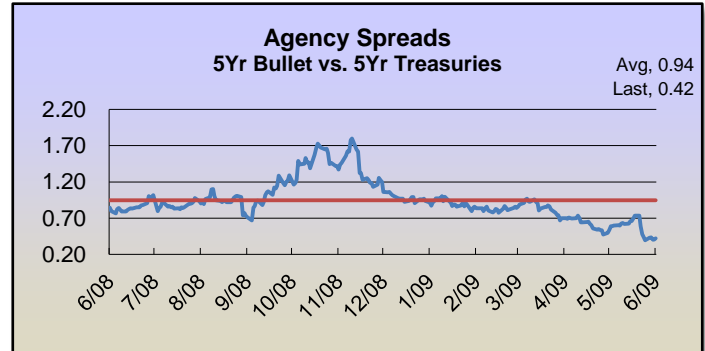
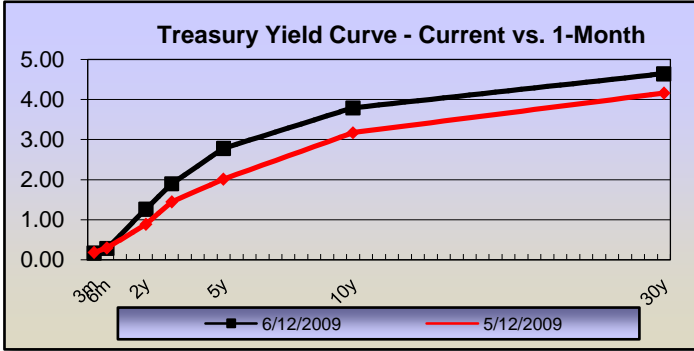
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# Baker Market Update



June 12, 2009



Treasury Market -- Historical						Fixed Rate Market									
Maty	Current	1Wk Change	Historical			Maty /AL	Non-Call Agency	US Swap	AAA BQ Muni		Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp <sup>2</sup>	S-Corp <sup>3</sup>	Maty	3Mo	6mo	1Yr	2Yr
3mo	0.17	-0.02	0.19	--	1.99	3mo	-				2Yr	1.27	1.61	1.53	--
6mo	0.28	--	0.30	0.21	2.28	6mo	-				3Yr	1.90	2.35	2.28	2.22
1yr	0.49	-0.12	0.52	0.46	2.64	1yr	0.62		2.06	2.09	5Yr	2.84	3.59	3.59	3.47
2yr	1.26	-0.03	0.89	0.76	3.04	2yr	1.47	1.68	2.37	2.40	7Yr	3.44	4.27	4.25	4.16
3yr	1.90	-0.04	1.34	1.01	3.26	3yr	2.10	2.35	3.20	3.24	10Yr	3.79	4.67	4.67	4.59
5yr	2.78	-0.05	2.01	1.51	3.70	5yr	3.17	3.23	3.58	3.63	July TBA MBS				
7yr	3.43	-0.10	2.66	--	--	7yr	3.83	3.71	4.30	4.36	Cpn	15Yr -Yld/AL	30Yr -Yld/AL		
10yr	3.79	-0.04	3.17	2.57	4.21	10yr	4.25	4.07	5.20	5.28	4.00	4.28	5.28y	4.71	8.41y
30yr	4.64	0.01	4.16	3.04	4.76	20yr	5.20		6.68	6.75	4.50	4.19	3.39y	4.83	6.31y
											5.00	3.75	2.37y	4.72	3.69y
											5.50	3.78	2.41y	4.29	2.35y
											6.00	3.47	2.37y	3.69	1.95y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	1.00	2.00
Primary Discount	0.50	--	0.50	1.25	
2ndary Discount	1.00	--	1.00	1.75	
Prime Rate	3.25	--	3.25	4.00	5.00
1 Month LIBOR	0.32	0.00	0.35	1.04	2.47
3 Month LIBOR	0.62	-0.01	0.91	1.92	2.78
6 Month LIBOR	1.18	-0.02	1.43	2.22	3.13
6 Month CD	0.78	-0.10	1.25	2.07	3.22
1 Year CMT	0.52	-0.10	0.54	0.50	2.62
REPO O/N	0.15	--	0.15	0.10	1.95
REPO 1Wk	0.15	--	0.15	0.10	1.95
CoF National Med	2.62	--	2.68	2.99	3.45
11th District CoF	1.38	--	1.63	3.13	3.11

FHLB Fixed Advance Rates				
Maturity	NY	Boston	Dallas	Topeka
3mo	0.77	0.36	0.25	0.50
6mo	0.94	0.48	0.50	0.67
1yr	1.24	0.90	0.70	0.92
2yr	4.46	1.85	2.59	2.01
3yr	4.94	2.63	3.26	2.77
4yr	5.40	3.20	3.80	3.37
5yr	5.56	3.70	4.17	3.93
7yr	6.11	4.49	4.72	--
10yr	6.32	4.91	5.19	5.12
5yr Am			3.56	3.17
10yr Am			4.65	4.43

Fed Fund Futures	
Maturity	Rate
Jun-09	0.190
Jul-09	0.200
Aug-09	0.220
Sep-09	0.245
Oct-09	0.275
Nov-09	0.335
Dec-09	0.385
Jan-10	0.465
Feb-10	0.685
Mar-10	0.820
Apr-10	0.960

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# Baker Market Update



June 12, 2009

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
06/08	U.S. Fed to Purchase Notes/Bonds					
06/08	U.S. Sells USD31 Bln 3-Month Bills; High Yld 0.19%					
06/08	U.S. Sells USD31 Bln 6-Month Bills; High Yld 0.345%					
06/09	Wholesale Inventories	APR	-1.2%	<b>-1.4%</b>	<del>-1.6%</del>	-1.8%
06/09	IBD/TIPP Economic Optimism	JUN	49.0	<b>50.8</b>	48.6	--
06/09	U.S. Sells USD30 Bln 4-Week Bills; High Yld 0.075%					
06/09	U.S. Sells USD35 Bln 3-Year Notes; High Yld 1.96%					
06/10	MBA Mortgage Applications	6/5	--	<b>-7.2%</b>	-16.2%	--
06/10	Trade Balance	APR	-\$29.0B	<b>-\$29.2B</b>	<del>-\$27.6B</del>	-\$28.5B
06/10	U.S. Fed Purchases USD3.5 Bln Notes/Bonds					
06/10	U.S. Sells USD19 Bln 10-Year Notes Reopening; High Yld 3.99%					
06/10	Monthly Budget Statement	MAY	-\$181.0B	<b>-\$189.7B</b>	-\$165.9B	--
06/10	Fed's Beige Book	6/11				
06/11	Advance Retail Sales	MAY	0.50%	<b>0.50%</b>	<del>-0.40%</del>	-0.20%
06/11	Retail Sales Less Autos	MAY	0.20%	<b>0.50%</b>	<del>-0.50%</del>	-0.20%
06/11	Initial Jobless Claims	6/6	615K	<b>601K</b>	<del>624K</del>	625K
06/11	Continuing Claims	5/30	6780K	<b>6816K</b>	<del>6735K</del>	6757K
06/11	Business Inventories	APR	-1.0%	<b>-1.1%</b>	<del>-1.0%</del>	-1.3%
06/11	U.S. Sells USD11 Bln 30-Year Bonds Reopening; High Yld 4.72%					
06/12	Import Price Index (MoM)	MAY	1.4%	<b>1.3%</b>	1.6%	1.1%
06/12	Import Price Index (YoY)	MAY	-17.5%	<b>-17.6%</b>	-16.3%	-16.4%
06/12	U. of Michigan Confidence	JUN P	69.5	--	68.7	--
06/15	Empire Manufacturing	JUN	(5.2)	--	(4.6)	--
06/15	Net Long-term TIC Flows	APR	\$52.9B	--	\$55.8B	--
06/15	Total Net TIC Flows	APR	--	--	\$23.2B	--
06/15	U.S. to Sell USD31 Bln 3-Month Bills					
06/15	U.S. to Sell USD30 Bln 6-Month Bills					
06/16	Producer Price Index (MoM)	MAY	0.6%	--	0.3%	--
06/16	PPI Ex Food & Energy (MoM)	MAY	0.1%	--	0.1%	--
06/16	Producer Price Index (YoY)	MAY	-4.4%	--	-3.7%	--
06/16	PPI Ex Food & Energy (YoY)	MAY	3.2%	--	3.4%	--
06/16	Housing Starts	MAY	480K	--	458K	--
06/16	Building Permits	MAY	500K	--	<del>494K</del>	498K
06/16	Industrial Production	MAY	-0.8%	--	-0.5%	--
06/16	Capacity Utilization	MAY	68.4%	--	69.1%	--
06/16	U.S. to Sell 4-Week Bills					
06/17	MBA Mortgage Applications	6/12	--	--	-7.2%	--
06/17	Consumer Price Index (MoM)	MAY	0.3%	--	0.0%	--
06/17	CPI Ex Food & Energy (MoM)	MAY	0.1%	--	0.3%	--
06/17	Consumer Price Index (YoY)	MAY	-0.9%	--	-0.7%	--
06/17	CPI Ex Food & Energy (YoY)	MAY	1.8%	--	1.9%	--
06/17	CPI Core Index SA	MAY	--	--	218.6	--
06/17	Consumer Price Index NSA	MAY	214.6	--	213.2	--
06/17	Current Account Balance	1Q	-\$85.0B	--	-\$132.8B	--
06/18	Initial Jobless Claims	6/13	610K	--	601K	--
06/18	Continuing Claims	6/6	--	--	6816K	--
06/18	Leading Indicators	MAY	0.9%	--	1.0%	--

MBS Prepayments <sup>4</sup>					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FH 5y Balloon	72.8	55.0	46.2	40.0	
FH/FN 7y Balloon	44.8	45.6	61.9	89.8	96.5
FN 10y	17.7	21.1	26.1	22.3	20.0
FH/FN 15y	15.8	21.4	27.5	24.8	17.4
GN 15y	10.4	10.4	23.8	27.9	22.3
FH/FN 20y	13.5	23.1	28.5	29.1	22.5
FH/FN 30y	8.4	22.1	28.6	27.3	20.9
GN 30y	2.1	12.3	31.4	40.1	34.6

PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FH 5y Balloon	102	759	104	973	973
FH/FN 7y Balloon	841	847	875	652	--
FN 10y	373	600	521	518	485
FH/FN 15y	369	599	521	505	480
GN 15y	231	276	335	353	322
FH/FN 20y	294	491	722	465	478
FH/FN 30y	246	444	653	783	743
GN 30y	246	361	454	629	525

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	<b>98.36</b>	-0.28	96.45	91.21	107.96
Euro	<b>1.40</b>	0.00	1.36	1.34	1.54
Dollar Index	<b>80.20</b>	-0.47	82.31	83.64	73.86
<b>Major Stock Indices</b>					
Dow Jones	<b>8,799.3</b>	36.1	8,469.1	8,629.7	12,141.6
S&P 500	<b>946.2</b>	6.12	908.4	879.7	1,339.9
NASDAQ	<b>1,858.8</b>	9.38	1,715.9	1,540.7	2,404.4
<b>Commodities</b>					
Gold	<b>939.80</b>	-22.80	925.90	825.20	902.70
Crude Oil	<b>72.20</b>	3.76	59.71	55.85	136.68
Natural Gas	<b>3.90</b>	0.03	4.56	5.94	11.19
Wheat	<b>584.75</b>	-38.25	592.75	538.75	932.00
Corn	<b>425.50</b>	-18.50	427.50	395.25	760.00

Notes: <sup>1</sup> Call Agy = Maturity at left w/ a 1-Year Call at Par; <sup>2</sup> Muni TEY (34% Fed, 2.0% COF); <sup>3</sup> S-Corp TEY Muni (35%, no TEFERA); <sup>4</sup> MBS Prepayments are provided by Bloomberg  
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