Baker Market Update

THE BAKER GROUP
Portfolio Management & Asset / Liability Strategies

Week in Review

January 27, 2012

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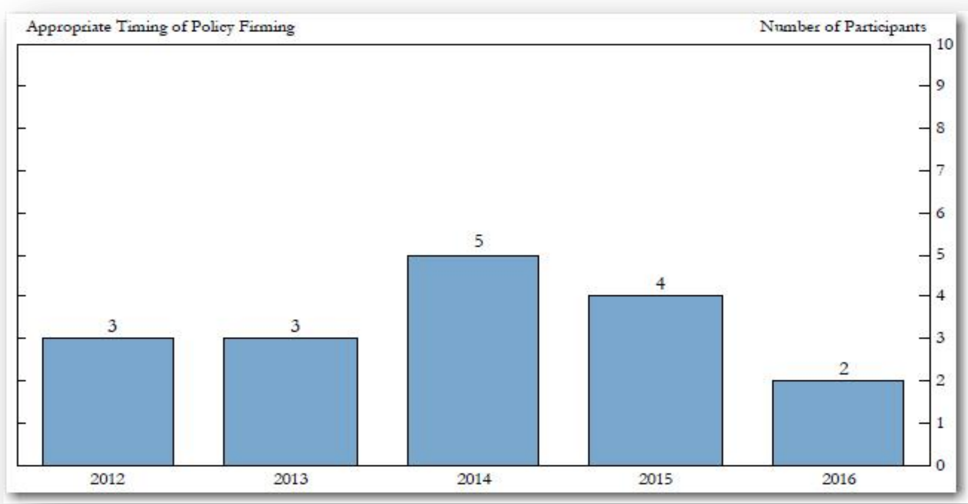
The Treasury market rallied slightly throughout the week as the yield on the Ten Year note fell to 1.91% in early trading this morning. The Benchmark Treasury issue began the week with a yield of slightly over 2%.

The big event this week was 2012's first FOMC meeting on Tuesday and Wednesday. The results of this meeting not only marked the first time that members' forecasts for interest rates were released, it was also the first time that the Committee explicitly stated it's desired inflation target. Policy makers see 2012 inflation falling below their 2% goal as measured by the Personal Consumption Expenditures. Also noteworthy was an extension of the definition of "extended period". The Committee, last August, stated that the Fed Funds target rate would likely remain unchanged until "at least mid-2013". This week's statement revises that timeline to "at least through late 2014".

Thursday saw the release of an unexpectedly high 3% increase in Durable Goods Orders along with a 377m increase in Initial Jobless Claims. Just out this morning was a mildly disappointing 2.8% flash estimate for Q4 GDP. Pre-release surveys had the market expecting a growth rate in the 3% range. Also released today was another increase in the University of Michigan Index of Consumer Confidence . That measure now stands at a level of 75, versus last month's 74.

Across the Atlantic, the European Central Bank's efforts to flood the banking system with cheap money appears to have assuaged , at least for the time being, fears of a meltdown in the Euro. While that continent's economy still faces monumental challenges, it looks like the confidence of at least some market participants is returning.
Next week brings us another round of Employment Data on Friday along with with the closely watched Institute of Supply Managers' Index next Wednesday.

Appropriate Timing of Policy Firming



The above chart shows the array of FOMC members' expectations for the timing of policy (FF target) firming.

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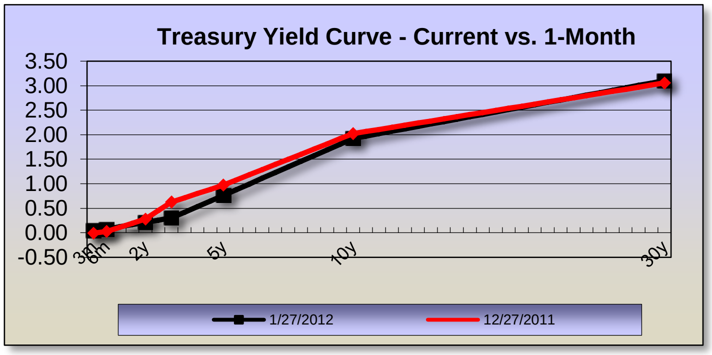

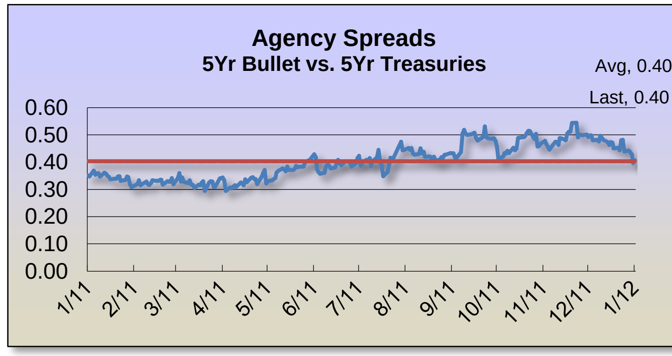

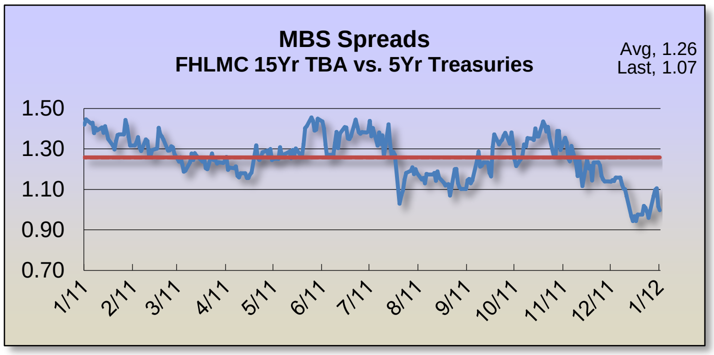

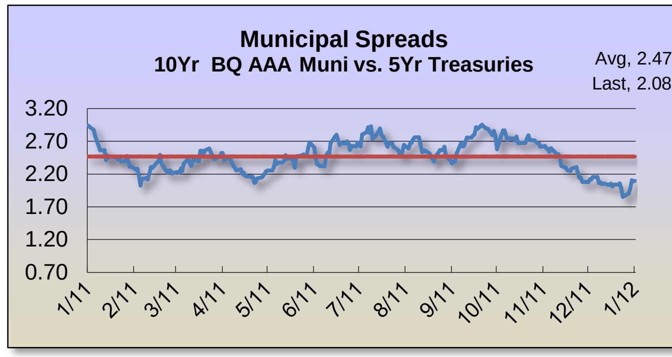

Treasury Market -- Historical

Maty	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
3mo	0.05	0.01	0.01	0.08	0.15
6mo	0.08	0.01	0.05	0.12	0.16
1yr	0.11	0.00	0.11	0.21	0.24
2yr	0.21	(0.03)	0.29	0.44	0.58
3yr	0.31	(0.06)	0.44	0.80	1.05
5yr	0.76	(0.12)	0.97	1.52	1.99
7yr	1.33	(0.12)	1.49	2.26	2.71
10yr	1.93	(0.10)	2.01	2.98	3.39
30yr	3.10	0.00	3.03	4.29	4.57

** Interpolated*

Fixed Rate Market

Maty /AL	N-Call Agency	US Swap	AAA BQ Muni C-Corp[2]	S-Corp[3]	Tax Muni
3mo	0.08				
6mo	0.14				
1yr	0.15		0.67	0.68	0.78
2yr	0.30	0.54	1.06	1.09	1.00
3yr	0.45	0.63	1.41	1.45	1.37
5yr	1.00	1.06	1.89	1.92	2.09
7yr	1.53	1.55	2.32	2.39	2.58
10yr	2.50	2.04	2.88	2.96	3.31
20yr	3.33		4.86	5.01	5.09

Mty	Agency Calls - Euro 3Mo	6mo	1Yr	2Yr
2Yr	-	-	0.32	-
3Yr	-	-	0.48	0.51
5Yr	-	0.93	1.06	1.11
7Yr	-	1.63	1.75	1.77
10Yr	-	2.27	2.39	2.38

February TBA MBS				
Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
4.00	1.55	2.63y	2.09	3.2y
4.50	1.60	2.58y	1.77	2.72y
5.00	1.51	2.39y	1.48	2.47y
5.50	2.00	2.68y	1.81	2.63y
6.00	2.80	2.83y	2.12	2.84y

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	**0.75**	--	0.75	0.75	0.75
2ndary Discount	**1.25**	--	1.25	1.25	1.25
Prime Rate	**3.25**	--	3.25	3.25	3.25
1 Month LIBOR	**0.27**	--	0.29	0.19	0.26
3 Month LIBOR	**0.55**	--	0.58	0.25	0.30
6 Month LIBOR	**0.79**	--	0.80	0.43	0.45
1 Year LIBOR	**1.10**	--	1.12	0.76	0.78
6 Month CD	**0.76**	--	0.78	0.40	0.44
1 Year CMT	**0.12**	--	0.12	0.21	0.27
REPO O/N	**0.07**	--	0.02	0.02	0.12
REPO 1Wk	**0.07**	--	0.02	0.04	0.13
CoF National Med	**1.20**	--	1.22	1.37	1.57
11th District CoF	**1.20**	--	1.22	1.36	1.57

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.20	0.25	0.14	0.33
6mo	0.22	0.27	0.19	0.36
1yr	0.27	0.36	0.24	0.42
2yr	0.42	0.66	0.71	0.63
3yr	0.69	0.88	0.81	0.80
4yr	0.92	1.14	1.01	1.05
5yr	1.18	1.40	1.29	1.33
7yr	1.91	2.10	2.03	- -
10yr	2.56	2.89	2.71	2.69
5yr Am	0.88		1.00	1.05
10yr Am	2.01		2.01	2.00

Fed Fund Futures

Maturity	Rate
Jan-12	0.082
Feb-12	0.085
Mar-12	0.090
Apr-12	0.095
May-12	0.100
Jun-12	0.100
Jul-12	0.100
Aug-12	0.100
Sep-12	0.105
Oct-12	0.105
Nov-12	0.110

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Weekly Economic Calendar

This Week & Next

Date	Release	Per.	Est.	Actual	Prior	Revised
01/24	Richmond Fed Manufact. Index	JAN	6.0	12.0	3.0	- -
01/25	House Price Index MoM	NOV	-	1.0%	~~-0.2%~~	-0.7%
01/25	Pending Home Sales MoM	DEC	-1.00%	-0.04	0.07	- -
01/25	Pending Home Sales YoY	DEC	- -	4.4%	6.9%	- -
01/25	FOMC Rate Decision	1/25	0.25%	0.3%	0.3%	- -
01/26	Durable Goods Orders	DEC	2.0%	3.0%	~~3.8%~~	4.3%
01/26	Cap Goods Orders Nondef Ex Air	DEC	1.0%	2.9%	-1.2%	- -
01/26	Initial Jobless Claims	1/21	370K	377K	~~352K~~	356K
01/26	Continuing Claims	1/14	3500K	3554K	~~3432K~~	3466K
01/26	Bloomberg Consumer Comfort	1/22	(46.0)	(46.40)	(47.40)	- -
01/26	Leading Indicators	DEC	0.7%	0.4%	~~0.5%~~	0.2%
01/26	New Home Sales	DEC	321K	307K	~~315K~~	314K
01/26	New Home Sales MoM	DEC	1.9%	-2.2%	~~1.6%~~	2.3%
01/27	GDP QoQ (Annualized)	4Q A	3.0%	2.8%	1.8%	- -
01/27	Personal Consumption	4Q A	2.4%	2.0%	1.7%	- -
01/27	GDP Price Index	4Q A	1.9%	0.4%	2.6%	- -
01/27	Core PCE QoQ	4Q A	0.9%	1.1%	2.1%	- -
01/27	U. of Michigan Confidence	JAN F	74.0	75.0	74.0	- -
01/30	Personal Income	DEC	0.4%	- -	0.1%	- -
01/30	Personal Spending	DEC	0.1%	- -	0.1%	- -
01/30	PCE Deflator (YoY)	DEC	2.3%	- -	2.5%	- -
01/30	PCE Core (MoM)	DEC	0.1%	- -	0.1%	- -
01/30	PCE Core (YoY)	DEC	1.8%	- -	1.7%	- -
01/31	Employment Cost Index	4Q	0.4%	- -	0.3%	- -
01/31	S&P/CaseShiller Home Price Ind	NOV	- -	- -	140.30	- -
01/31	S&P/CS 20 City MoM% SA	NOV	-0.5%	- -	-0.6%	- -
01/31	S&P/CS Composite-20 YoY	NOV	-3.3%	- -	-3.4%	- -
01/31	Consumer Confidence	JAN	68.0	- -	64.50	- -
02/01	ISM Manufacturing	JAN	54.5	- -	53.90	- -
02/01	ISM Prices Paid	JAN	49.5	- -	47.50	- -
02/01	Domestic Vehicle Sales	JAN	10.50M	- -	10.45M	- -
02/01	Total Vehicle Sales	JAN	13.60M	- -	~~13.52M~~	13.48M
02/02	Nonfarm Productivity	4Q P	1.0%	- -	2.3%	- -
02/02	Unit Labor Costs	4Q P	0.8%	- -	-2.5%	- -
02/02	Initial Jobless Claims	1/28	375K	- -	377K	- -
02/02	Continuing Claims	1/21	3548K	- -	3554K	- -
02/02	Bloomberg Consumer Comfort	1/29	- -	- -	(46.40)	- -
02/03	Change in Nonfarm Payrolls	JAN	145K	- -	200K	- -
02/03	Change in Private Payrolls	JAN	170K	- -	212K	- -
02/03	Change in Manufact. Payrolls	JAN	10K	- -	23K	- -
02/03	Unemployment Rate	JAN	8.5%	- -	8.5%	- -
02/03	Avg Hourly Earning MOM All Emp	JAN	0.2%	- -	0.2%	- -
02/03	Avg Hourly Earning YOY All Emp	JAN	1.9%	- -	2.1%	- -
02/03	Avg Weekly Hours All Employees	JAN	34.4	- -	34.40	- -
02/03	Underemployment Rate (U6)	JAN	- -	- -	15.2%	- -
02/03	ISM Non-Manf. Composite	JAN	53.2	- -	52.60	- -
02/03	Factory Orders	DEC	1.5%	- -	1.8%	- -

MBS Prepayments[4]

	3-Month CPR				
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	26.8	24.6	23.3	17.6	22.3
FH/FN 15y	27.3	23.8	22.0	19.3	16.5
GN 15y	18.8	18.8	14.9	14.8	15.3
FH/FN 20y	28.9	28.0	26.4	22.6	17.5
FH/FN 30y	28.3	27.0	26.3	23.1	20.2
GN 30y	17.0	20.2	22.8	21.4	18.4
	PSA Projections				
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	454	479	411	372	325
FH/FN 15y	460	479	414	369	327
GN 15y	348	396	378	350	254
FH/FN 20y	447	486	448	387	380
FH/FN 30y	530	554	516	484	452
GN 30y	423	433	469	479	447

Other Markets

Index	Current	1Wk Chng	Historical 1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	**76.85**	(0.16)	77.88	77.98	82.92
Euro	**1.31**	0.02	1.31	1.44	1.37
Dollar Index	**79.31**	(0.91)	79.80	74.09	77.73
Major Stock Indices					
Dow Jones	**12,734.6**	110.7	12,291.4	12,302.6	11,989.8
S&P 500	**1,318.4**	3.9	1,265.4	1,304.9	1,299.5
NASDAQ	**2,805.3**	17.0	2,625.2	2,764.8	2,755.3
Commodities					
Gold	**1,724.60**	57.80	1,598.00	1,620.00	1,330.90
Crude Oil	**99.49**	1.16	101.46	100.03	95.59
Natural Gas	**2.58**	0.24	3.15	4.71	5.04
Wheat	**652.5**	42.0	644.8	777.0	931.8
Corn	**639.25**	27.75	633.25	704.00	590.25

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

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. Although believed to be reliable, The Baker Group does not guarantee the accuracy of the listed information. This report was printed as of: 01/27/2012 12:09PM

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