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The groundswell of recent, positive economic news grew a bit more this morning with the Bureau of Labor Statistics' announcement of a 200m gain in Non-Farm Payrolls for December. Accompanying that news was the also surprising decline in the Unemployment Rate to 8.5%. A slight increase (0.1 hour) in the Average Work Week along with a 0.2% climb in Average Hourly Earnings both serve to reinforce the perception of a gradually brightening unemployment picture. Not all the good news came today, however, as Thursday brought us an announced 325m increase in private sector jobs from payroll processor ADP. Initial Jobless Claims also came in at 372m; the fifth such week below 400m. So far today, reaction in the credit markets is subdued with only very slight price improvements in the longer part of the Treasury curve.

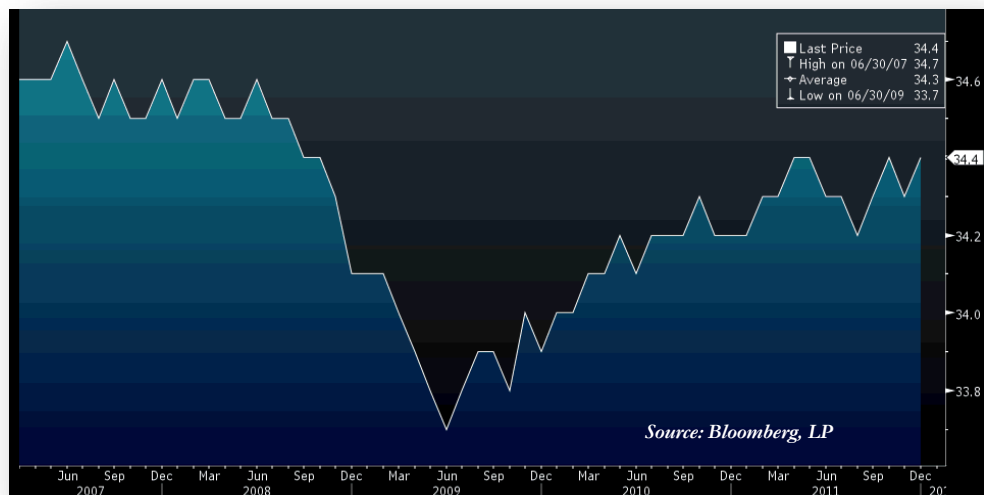
The good news in the labor market was preceded this week by even more good news from the manufacturing sector. On Tuesday, the Institute of Supply Managers' Manufacturing Index came in at 53.9, an increase of 1.2 from the previous month. The hits just kept on coming on Wednesday when Factory Orders rose by 1.8% after a 0.4% decline the previous month. More was also to be heard from the ISM as their Non-Manufacturing Index carded an increase of 0.6 to a new level of 52.6.

While all this good news can certainly be considered a step in the right direction, market participants seem to be curbing their enthusiasm with the realization that many econometric measurements, improving though they are, still have a lot of ground to cover after having suffered such epic declines. Optimism is also being tempered by continuing concern over the Eurozone's struggles, as that region continues to gingerly tip-toe on the cusp of a recession.

The Fed made news this week with the announcement that, in the interest of transparency, FOMC members' rate projections would now be published starting this month after their meeting scheduled for the 25th. William Dudley, President of the New York Fed, also garnered a few headlines today as he called for further efforts to revive the housing market while also alluding to the appropriateness of further monetary accommodation. His remarks were made in a speech this morning to a group of bankers in New Jersey.

In light of all this news, the Treasury market moved mostly sideways this week. Low volatility was the order of the day although the Ten Year will finish up the week at a slightly higher yield of 1.95% against its Tuesday opening level of 1.86%. Next week will bring us inflation news in the form of PPI on Thursday and CPI on Friday. Consumer Sentiment and Retail Sales numbers will also be announced on the 13th.

Average Weekly Hours Worked - 2007 - Today



As an increasing number of non-farm payroll jobs are added, increases in Average Weekly Hours worked are especially welcome as a validation of an improving labor market.

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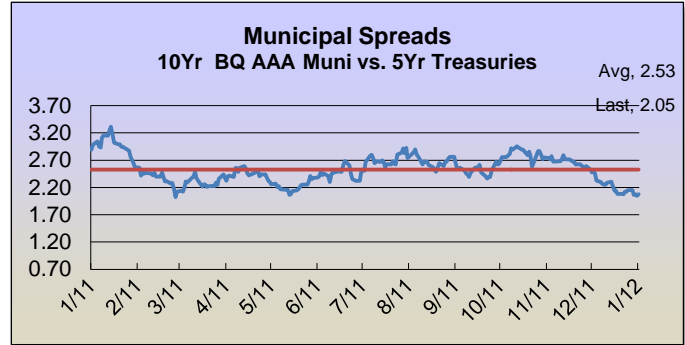
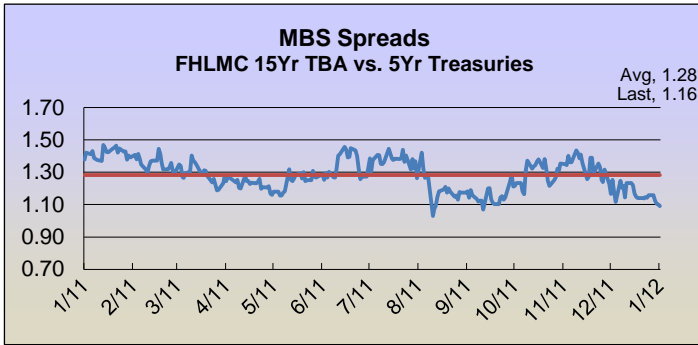
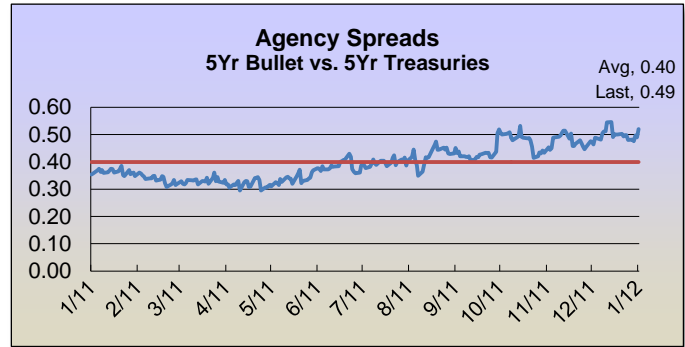
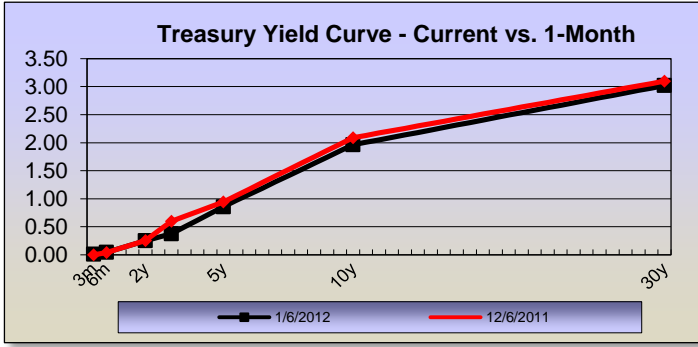
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Baker Market Update



January 6, 2012



| 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 | | Maty | 3Mo | 6mo | 1Yr | 2Yr |
| 3mo | 0.01 | (0.00) | 0.00 | 0.01 | 0.15 | 3mo | 0.08 | | | | | 2Yr | 0.00 | 0.40 | - | |
| 6mo | 0.05 | (0.01) | 0.04 | 0.06 | 0.18 | 6mo | 0.12 | | | | | 3Yr | 0.00 | 0.63 | 0.68 | |
| 1yr | 0.09 | (0.01) | 0.10 | 0.17 | 0.28 | 1yr | 0.18 | | 0.70 | 0.74 | 0.75 | 5Yr | 1.13 | 1.25 | 1.26 | 1.25 |
| 2yr | 0.25 | 0.01 | 0.26 | 0.42 | 0.67 | 2yr | 0.40 | 0.68 | 1.09 | 1.12 | 1.00 | 7Yr | 1.73 | 1.84 | 1.86 | 1.80 |
| 3yr | 0.38 | 0.02 | 0.39 | 0.84 | 1.13 | 3yr | 0.63 | 0.79 | 1.45 | 1.48 | 1.50 | 10Yr | 2.28 | 2.41 | 2.44 | 2.39 |
| 5yr | 0.86 | 0.02 | 0.94 | 1.66 | 2.07 | 5yr | 1.20 | 1.21 | 1.88 | 1.91 | 1.75 | February TBA MBS | | | | |
| 7yr | 1.39 | 0.05 | 1.53 | 2.42 | 2.78 | 7yr | 1.67 | 1.66 | 2.15 | 2.22 | 2.25 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 1.96 | 0.09 | 2.09 | 3.11 | 3.40 | 10yr | 2.46 | 2.10 | 2.68 | 2.73 | 2.50 | 4.00 | 1.54 | 2.41y | 2.31 | 3.18y |
| 30yr | 3.02 | 0.13 | 3.10 | 4.36 | 4.51 | 20yr | 3.30 | | 5.08 | 5.16 | 4.50 | 4.50 | 1.70 | 2.55y | 1.82 | 2.5y |
| | | | | | | | | | | | | 5.00 | 1.66 | 2.39y | 1.59 | 2.43y |
| | | | | | | | | | | | | 5.50 | 2.04 | 2.65y | 1.89 | 2.6y |
| | | | | | | | | | | | | 6.00 | 2.97 | 2.83y | 2.17 | 2.81y |

* Interpolated

| 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 | 0.30 | -- | 0.28 | 0.19 | 0.26 |
| 3 Month LIBOR | 0.58 | -- | 0.54 | 0.25 | 0.30 |
| 6 Month LIBOR | 0.81 | -- | 0.76 | 0.40 | 0.46 |
| 1 Year LIBOR | 1.13 | -- | 1.08 | 0.74 | 0.79 |
| 6 Month CD | 0.79 | -- | 0.73 | 0.37 | 0.43 |
| 1 Year CMT | 0.11 | -- | 0.11 | 0.19 | 0.31 |
| REPO O/N | 0.01 | -- | 0.04 | 0.00 | 0.08 |
| REPO 1Wk | 0.05 | -- | 0.04 | 0.05 | 0.10 |
| CoF National Med | 1.22 | -- | 1.25 | 1.39 | 1.62 |
| 11th District CoF | 1.20 | -- | 1.22 | 1.36 | 1.57 |

| FHLB Fixed Advance Rates | | | | |
|--------------------------|---------|--------|--------|--------|
| Maturity | Chicago | Boston | Dallas | Topeka |
| 3mo | 0.16 | 0.22 | 0.16 | 0.31 |
| 6mo | 0.20 | 0.25 | 0.20 | 0.35 |
| 1yr | 0.30 | 0.39 | 0.28 | 0.44 |
| 2yr | 0.52 | 0.75 | 0.93 | 0.73 |
| 3yr | 0.86 | 1.05 | 1.05 | 0.98 |
| 4yr | 1.12 | 1.32 | 1.28 | 1.26 |
| 5yr | 1.36 | 1.56 | 1.54 | 1.51 |
| 7yr | 2.00 | 2.19 | 2.19 | -- |
| 10yr | 2.66 | 2.95 | 2.72 | 2.76 |
| 5yr Am | 1.07 | | 1.23 | 1.22 |
| 10yr Am | 2.18 | | 2.14 | 2.11 |

| Fed Fund Futures | |
|------------------|-------|
| Maturity | Rate |
| Jan-12 | 0.070 |
| Feb-12 | 0.075 |
| Mar-12 | 0.080 |
| Apr-12 | 0.090 |
| May-12 | 0.090 |
| Jun-12 | 0.095 |
| Jul-12 | 0.105 |
| Aug-12 | 0.110 |
| Sep-12 | 0.120 |
| Oct-12 | 0.130 |
| Nov-12 | 0.135 |

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Baker Market Update



January 6, 2012

| Weekly Economic Calendar | | | | | | |
|--------------------------|--------------------------------------|-------|----------|--------|----------|---------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 01/03 | Construction Spending MoM | NOV | 0.50% | 1.20% | 0.8% | (0.0) |
| 01/03 | ISM Manufacturing | DEC | 53.50 | 53.90 | 52.70 | -- |
| 01/03 | ISM Prices Paid | DEC | 48.00 | 47.50 | 45.00 | -- |
| 01/03 | Minutes of FOMC Meeting | | | | | |
| 01/04 | MBA Mortgage Applications | 12/30 | -- | -4.1% | -- | 0.3% |
| 01/04 | Factory Orders | NOV | 2.0% | 1.8% | -0.4% | -0.2% |
| 01/04 | Total Vehicle Sales | DEC | 13.50M | 13.48M | 13.59M | -- |
| 01/04 | Domestic Vehicle Sales | DEC | 10.42M | 10.49M | 10.53M | -- |
| 01/05 | Challenger Job Cuts YoY | DEC | -- | 30.6% | -12.8% | -- |
| 01/05 | RBC Consumer Outlook Index | JAN | -- | 45.80 | 40.30 | -- |
| 01/05 | ADP Employment Change | DEC | 178K | 325K | 206K | 204K |
| 01/05 | Initial Jobless Claims | 12/31 | 375K | 372K | 384K | 387K |
| 01/05 | Continuing Claims | 12/24 | 3570K | 3595K | 3604K | 3617K |
| 01/05 | Bloomberg Consumer Comfort | 1/1 | -46.00 | -44.80 | -47.50 | -- |
| 01/05 | ISM Non-Manf. Composite | DEC | 53.00 | 52.60 | 52.00 | -- |
| 01/05 | U.S. Fed Sells USD1.350 Bln Notes | | | | | |
| 01/05 | ICSC Chain Store Sales YoY | DEC | 4.0% | 3.5% | 3.2% | 2.8% |
| 01/06 | Revisions: Household Employment Surv | | | | | |
| 01/06 | Change in Nonfarm Payrolls | DEC | 155K | 200K | 420K | 100K |
| 01/06 | Change in Private Payrolls | DEC | 178K | 212K | 440K | 120K |
| 01/06 | Change in Manufact. Payrolls | DEC | 6K | 23K | 2K | 1K |
| 01/06 | Unemployment Rate | DEC | 8.7% | 8.50% | 0.09 | 8.70% |
| 01/06 | Underemployment Rate (U6) | DEC | -- | 0.15 | 0.16 | -- |
| 01/06 | Avg Hourly Earning MOM All Emp | DEC | 0.2% | 0.2% | 0.00 | 0.00% |
| 01/06 | Avg Hourly Earning YOY All Emp | DEC | 2.1% | 2.1% | 0.02 | 1.90% |
| 01/06 | Avg Weekly Hours All Employees | DEC | 34.30 | 34.40 | 34.30 | -- |
| 01/06 | Chg in Household Survey Empl | DEC | -- | 176.00 | 278.00 | 317.00 |
| 01/09 | Consumer Credit | NOV | \$7.000B | -- | \$7.645B | -- |
| 01/10 | NFIB Small Business Optimism | DEC | 94.00 | -- | 92.00 | -- |
| 01/10 | IBD/TIPP Economic Optimism | JAN | -- | -- | 42.80 | -- |
| 01/10 | JOLT's Job Openings | NOV | -- | -- | 3267 | -- |
| 01/10 | Wholesale Inventories | NOV | 0.5% | -- | 1.6% | -- |
| 01/11 | MBA Mortgage Applications | 1/6 | -- | -- | -4.1% | -- |
| 01/11 | Fed's Beige Book | | | | | |
| 01/12 | Advance Retail Sales | DEC | 0.3% | -- | 0.2% | -- |
| 01/12 | Retail Sales Less Autos | DEC | 0.3% | -- | 0.2% | -- |
| 01/12 | Retail Sales Ex Auto & Gas | DEC | 0.3% | -- | 0.2% | -- |
| 01/12 | Initial Jobless Claims | 1/7 | 375K | -- | 372K | -- |
| 01/12 | Continuing Claims | 12/31 | 3575K | -- | 3595K | -- |
| 01/12 | Bloomberg Consumer Comfort | 1/8 | -- | -- | -44.80 | -- |
| 01/12 | Business Inventories | NOV | 0.40% | -- | 0.8% | -- |
| 01/12 | Monthly Budget Statement | DEC | -\$82.5B | -- | -- | -- |
| 01/13 | Import Price Index (MoM) | DEC | -0.1% | -- | 0.7% | -- |
| 01/13 | Import Price Index (YoY) | DEC | 8.3% | -- | 0.10 | -- |
| 01/13 | Trade Balance | NOV | -\$45.0B | -- | -\$43.5B | -- |
| 01/13 | U. of Michigan Confidence | JAN P | 71.50 | -- | 69.90 | -- |

| MBS Prepayments ⁴ | | | | | |
|------------------------------|------|------|------|------|------|
| 3-Month CPR | | | | | |
| Type | 4.5 | 5.0 | 5.5 | 6.0 | 6.5 |
| FN 10y | 26.2 | 23.8 | 22.0 | 15.7 | 19.9 |
| FH/FN 15y | 26.2 | 22.6 | 20.9 | 18.6 | 16.1 |
| GN 15y | 17.5 | 17.5 | 13.9 | 13.9 | 14.5 |
| FH/FN 20y | 27.8 | 26.6 | 25.1 | 21.5 | 16.9 |
| FH/FN 30y | 27.3 | 25.4 | 24.9 | 22.2 | 19.6 |
| GN 30y | 15.6 | 19.2 | 21.5 | 20.7 | 17.9 |
| PSA Projections | | | | | |
| Type | 4.5 | 5.0 | 5.5 | 6.0 | 6.5 |
| FN 10y | 458 | 479 | 418 | 374 | 323 |
| FH/FN 15y | 459 | 476 | 414 | 370 | 325 |
| GN 15y | 348 | 410 | 390 | 355 | 252 |
| FH/FN 20y | 475 | 497 | 444 | 402 | 381 |
| FH/FN 30y | 574 | 566 | 524 | 483 | 457 |
| GN 30y | 416 | 428 | 478 | 468 | 444 |

| Other Markets | | | | | |
|----------------------------|----------|----------|------------|----------|----------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 77.07 | 0.16 | 77.73 | 80.91 | 83.33 |
| Euro | 1.27 | (0.02) | 1.34 | 1.43 | 1.30 |
| Dollar Index | 81.25 | 0.77 | 78.50 | 75.12 | 80.79 |
| Major Stock Indices | | | | | |
| Dow Jones | 12,392.1 | 105.0 | 12,150.1 | 12,626.0 | 11,697.3 |
| S&P 500 | 1,280.6 | 17.6 | 1,258.5 | 1,339.2 | 1,273.9 |
| NASDAQ | 2,679.2 | 65.5 | 2,649.6 | 2,834.0 | 2,709.9 |
| Commodities | | | | | |
| Gold | 1,620.60 | 79.70 | 1,731.80 | 1,532.70 | 1,384.50 |
| Crude Oil | 101.06 | 1.41 | 101.45 | 99.25 | 94.29 |
| Natural Gas | 3.05 | 0.02 | 3.52 | 4.72 | 5.14 |
| Wheat | 630.8 | (14.5) | 613.0 | 707.3 | 869.8 |
| Corn | 646.75 | 8.75 | 596.50 | 622.00 | 558.25 |

Notes: ¹ Call Ggy = 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
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