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Even with the kickoff of the holiday season and a shortened trading week, markets remain worried about Europe's continuing debt crisis. There are additional concerns to the overall cohesiveness of the Euro-zone generally. All of this has put downward pressure on the euro, which has fallen nearly 2% this week, and currently trades around 1.328 dollars per euro. Earlier this week, Germany had a failed auction of 10Yr Bunds (their benchmark Treasury note), only receiving bids for 65% of the total €6 billion and sending yields higher. This suggests that investors are fearful of Germany, the Euro-zone strongest economy, getting entangled in debt burdens created elsewhere in Europe. Here at home, and partly due to safe haven demand, appetite for U.S. debt is very high. This can be seen in the week's \$99 billion 2Yr, 5Yr, and 7Yr auctions. Notably, the 2Yr Note saw its highest ever bid-to-cover ratio (4.07x), while the 5Yr and 7Yr Notes experienced record low auction yields as well (0.937% and 1.415% respectively).

A revised look at Q3 annualized GDP slowed from 2.5% to 2.0%, expanding less than economists were expecting (2.5%), as businesses drew down inventories to a greater degree than was previously thought. The silver-lining here might be added growth in the fourth-quarter as companies bolster their inventories. Durable goods orders fell less than economists were anticipating, as demand for aircraft and business equipment waned. Orders less transportation items jumped 0.7%, while capital goods orders for non-defense items and excluding aircraft dropped 1.8%, the most since January. Core personal consumption expenditures for the month of October come in as expected, up 0.1%, as too did the year-over-year rate, inching up from 1.6% to 1.7%.

Next Friday, economists expect that November payrolls to increase 120,000, while the household survey should remain unchanged at 9.0%.

Core Personal Consumption Expenditures - Last 50 Years



Price pressures have been relatively tame recently, at least for core consumer goods. Core PCE has flirted with the 1.6%-1.7% level for the past four-months, as stagnant wage growth and high levels of joblessness continue to keep inflation at bay.

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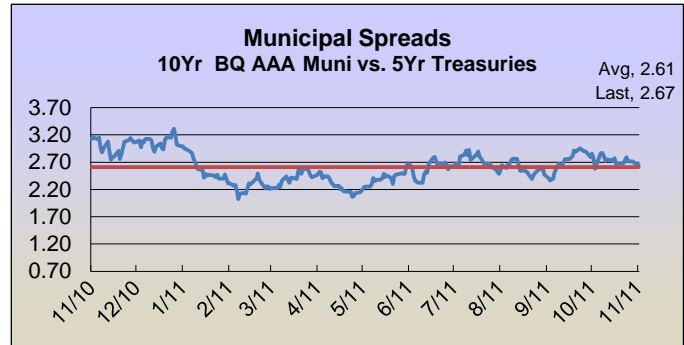
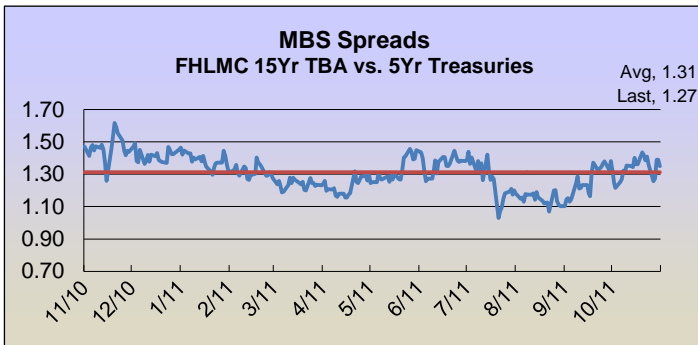
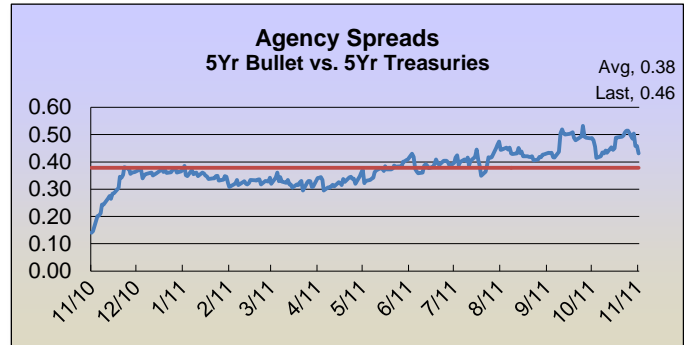
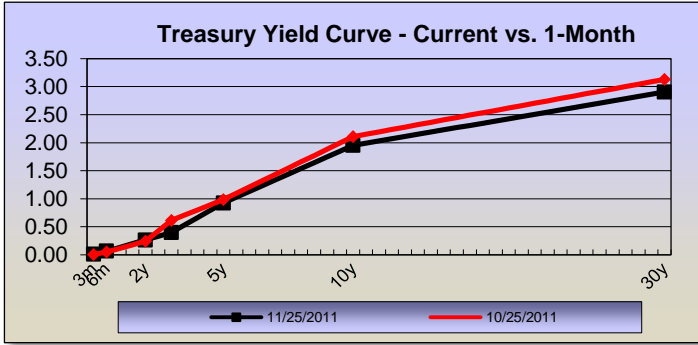
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Baker Market Update



November 25, 2011



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	0.02	0.01	0.01	0.05	0.16	3mo	0.11					2Yr	0.00	0.00	0.60	-
6mo	0.07	0.03	0.05	0.10	0.20	6mo	0.18					3Yr	0.00	0.00	0.86	0.83
1yr	0.11	0.01	0.11	0.17	0.27	1yr	0.22		0.87	0.95	0.81	5Yr	0.00	1.39	1.49	1.47
2yr	0.27	(0.01)	0.24	0.54	0.54	2yr	0.53	0.81	1.15	1.23	1.02	7Yr	0.00	2.01	2.07	2.04
3yr	0.40	(0.01)	0.42	0.95	0.88	3yr	0.78	0.92	1.41	1.49	1.27	10Yr	0.00	2.60	2.60	2.59
5yr	0.92	0.00	0.99	1.76	1.57	5yr	1.28	1.37	2.10	2.18	1.90	December TBA MBS				
7yr	1.44	(0.02)	1.57	2.45	2.24	7yr	1.77	1.78	2.50	2.58	2.35	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.95	(0.06)	2.11	3.13	2.91	10yr	2.39	2.16	3.41	3.49	2.75	4.00	1.96	2.6y	2.69	3.43y
30yr	2.91	(0.09)	3.13	4.28	4.28	20yr	3.12		5.15	5.23	4.49	4.50	1.83	2.54y	2.07	2.45y
												5.00	1.73	2.39y	1.79	2.42y
												5.50	2.04	2.59y	2.11	2.67y
												6.00	2.66	2.69y	2.32	2.83y

* 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	0.26	0.00	0.24	0.19	0.26
3 Month LIBOR	0.52	0.03	0.42	0.25	0.29
6 Month LIBOR	0.73	0.04	0.61	0.40	0.46
1 Year LIBOR	1.05	0.03	0.93	0.73	0.78
6 Month CD	0.71	0.03	0.59	0.38	0.42
1 Year CMT	0.12	0.01	0.12	0.20	0.26
REPO O/N	0.10	--	0.03	0.03	0.15
REPO 1Wk	0.07	--	0.02	0.05	0.14
CoF National Med	1.25	--	1.28	1.43	1.66
11th District CoF	1.28	--	1.32	1.45	1.66

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.16	0.32	0.18	0.30
6mo	0.21	0.36	0.22	0.36
1yr	0.33	0.52	0.30	0.45
2yr	0.64	0.99	1.11	0.88
3yr	0.97	1.27	1.22	1.10
4yr	1.24	1.56	1.44	1.40
5yr	1.50	1.84	1.69	1.68
7yr	2.11	2.44	2.15	--
10yr	2.71	3.15	2.60	2.83
5yr Am	1.20		1.39	1.36
10yr Am	2.28		2.12	2.22

Fed Fund Futures	
Maturity	Rate
Nov-11	0.082
Dec-11	0.095
Jan-12	0.115
Feb-12	0.125
Mar-12	0.130
Apr-12	0.135
May-12	0.140
Jun-12	0.135
Jul-12	0.135
Aug-12	0.140
Sep-12	0.140

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Baker Market Update



November 25, 2011

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
11/21	Chicago Fed Nat Activity Index	OCT	19.0%	-13.0%	-22.0%	-20.0%
11/21	Existing Home Sales	OCT	4.80M	4.97M	4.91M	4.90M
11/21	U.S. Sells USD35 Bln 2-Year Notes; High Yld 0.280%					
11/22	GDP QoQ (Annualized)	3Q S	2.5%	2.0%	2.5%	--
11/22	Personal Consumption	3Q S	2.4%	2.3%	2.4%	--
11/22	GDP Price Index	3Q S	2.5%	2.5%	2.5%	--
11/22	Core PCE QoQ	3Q S	2.1%	2.0%	2.1%	2.0%
11/22	U.S. Sells USD35 Bln 5-Year Notes; High Yld 0.937%					
11/23	MBA Mortgage Applications	11/18	--	-1.2%	-10.0%	--
11/23	Durable Goods Orders	OCT	-1.2%	-0.7%	-0.8%	-1.5%
11/23	Durables Ex Transportation	OCT	0.0%	0.7%	1.7%	0.6%
11/23	Cap Goods Orders Nondef Ex Air	OCT	-1.0%	-1.8%	2.4%	0.9%
11/23	Cap Goods Ship Nondef Ex Air	OCT	--	-1.1%	-0.9%	-1.0%
11/23	Personal Income	OCT	0.3%	0.4%	0.1%	--
11/23	Personal Spending	OCT	0.3%	0.1%	0.6%	0.7%
11/23	PCE Deflator (YoY)	OCT	2.7%	2.7%	2.9%	--
11/23	PCE Core (MoM)	OCT	0.1%	0.1%	0.0%	--
11/23	PCE Core (YoY)	OCT	1.7%	1.7%	1.6%	--
11/23	Initial Jobless Claims	11/19	390K	393K	388K	391K
11/23	Continuing Claims	11/12	3621K	3691K	3608K	3623K
11/23	U. of Michigan Confidence	NOV F	64.5	64.1	64.2	--
11/23	U.S. Sells USD29 Bln 7-Year Notes; High Yld 1.415%					
11/28	New Home Sales	OCT	313K	--	313K	--
11/28	Dallas Fed Manf. Activity	NOV	5.0	--	2.3	--
11/29	S&P/CS 20 City MoM% SA	SEP	0.0%	--	-0.1%	--
11/29	S&P/CS Composite-20 YoY	SEP	-3.0%	--	-3.8%	--
11/29	Consumer Confidence	NOV	44.4	--	39.8	--
11/29	House Price Index MoM	SEP	0.1%	--	-0.1%	--
11/30	ADP Employment Change	NOV	130K	--	110K	--
11/30	Nonfarm Productivity	3Q F	2.6%	--	3.1%	--
11/30	Unit Labor Costs	3Q F	-2.1%	--	-2.4%	--
11/30	Chicago Purchasing Manager	NOV	58.5	--	58.4	--
11/30	Pending Home Sales MoM	OCT	1.2%	--	-4.6%	--
12/01	Initial Jobless Claims	11/26	390K	--	393K	--
12/01	Continuing Claims	11/18	--	--	--	--
12/01	ISM Manufacturing	NOV	51.5	--	50.8	--
12/01	ISM Prices Paid	NOV	45.0	--	41.0	--
12/01	Total Vehicle Sales	NOV	13.40M	--	13.20M	--
12/01	Domestic Vehicle Sales	NOV	10.40M	--	10.29M	--
12/01	ICSC Chain Store Sales YoY	NOV	--	--	3.7%	--
12/02	Change in Nonfarm Payrolls	NOV	120K	--	80K	--
12/02	Change in Private Payrolls	NOV	145K	--	104K	--
12/02	Change in Manufact. Payrolls	NOV	9K	--	5K	--
12/02	Unemployment Rate	NOV	9.0%	--	9.0%	--
12/02	Avg Hourly Earning MOM All Emp	NOV	0.2%	--	0.2%	--
12/02	Avg Hourly Earning YOY All Emp	NOV	2.0%	--	1.8%	--
12/02	Avg Weekly Hours All Employees	NOV	34.3	--	34.3	--

MBS Prepayments ⁴					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	24.6	24.1	21.9	17.2	14.9
FH/FN 15y	24.2	21.8	20.6	18.6	16.3
GN 15y	16.7	16.7	14.3	14.7	15.3
FH/FN 20y	23.4	25.2	25.1	22.3	17.2
FH/FN 30y	22.1	22.6	23.8	22.2	19.9
GN 30y	12.8	17.3	20.6	20.4	17.9
PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	463	483	431	402	345
FH/FN 15y	470	479	427	401	340
GN 15y	320	420	385	343	249
FH/FN 20y	468	465	457	402	378
FH/FN 30y	556	564	512	485	461
GN 30y	409	468	469	497	463

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	77.63	0.72	76.09	81.97	83.60
Euro	1.32	(0.03)	1.39	1.41	1.34
Dollar Index	79.53	1.46	76.12	75.93	#N/A N/A
Major Stock Indices					
Dow Jones	11,257.6	(648.0)	11,913.6	12,356.2	11,187.3
S&P 500	1,161.8	(75.1)	1,254.2	1,316.3	1,198.4
NASDAQ	2,460.1	(179.5)	2,699.4	2,746.2	2,543.1
Commodities					
Gold	1,681.70	(41.20)	1,702.40	1,531.70	#N/A N/A
Crude Oil	95.88	(3.05)	92.93	103.04	#N/A N/A
Natural Gas	3.52	0.11	3.85	4.91	#N/A N/A
Wheat	587.8	(24.3)	672.8	930.0	#N/A N/A
Corn	591.50	(31.75)	662.25	681.75	#N/A N/A

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
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