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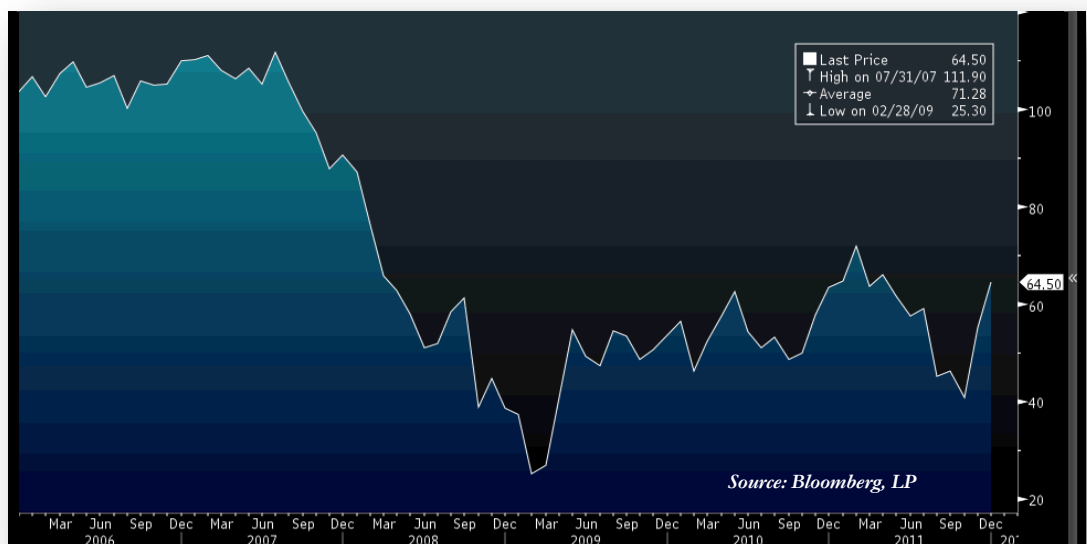
Credit markets started the holiday-shortened week slowly and then tapered off as many market participants sat on the sidelines. Although the economic calendar was light, what little news that was released was mainly positive. The Conference Board's Consumer Confidence Index level of 64.5 contrasted sharply, and favorably, with last month's reading of only 56. This reinforces a previously reported increase in the University of Michigan's Consumer Sentiment Index and lends credence to the notion that something out there is making people feel better. Perhaps it's the improving labor market where this week's Initial Jobless Claims number came in under 400m (381m) for the fourth week in a row. Pending Home Sales surprised to the upside with a 7.3% increase against expectations of only a 1.5% rise.

For those following the developments in Europe, Italy's €20B debt auctions garnered most of the attention. Despite the European Central Banks attempts to bolster support for that market through purchases of its own, ten year Italian bonds continue to trade at yields above 7%. Politically and fiscally, the Continent continues to drift without apparent direction and has thus benefited holders of U.S. Treasury securities. Fear and uncertainty continue to create demand for Treasuries as the yield on the 10 year T-Note finished the week around 1.85% after opening Tuesday around 2.02%.

Next week brings a new round of anxiously awaited jobs data on Friday. Early market surveys reflect expectations of about a 150m increase in Non-Farm Payrolls with perhaps a slight uptick in the Unemployment Rate. That news will be preceded by Tuesday's announcement of the closely watched Institute of Supply Managers' Manufacturing Index where positive changes are also expected. The FOMC will be releasing the minutes of their December 13<sup>th</sup> meeting on the 3<sup>rd</sup>.

The Conference Board's Index of Consumer Confidence rose sharply, and unexpectedly, as year-end improvements in several areas of economic performance appear to be having a positive effect on the populations' mood.

**Consumer Confidence - Dec 2005 - Today**



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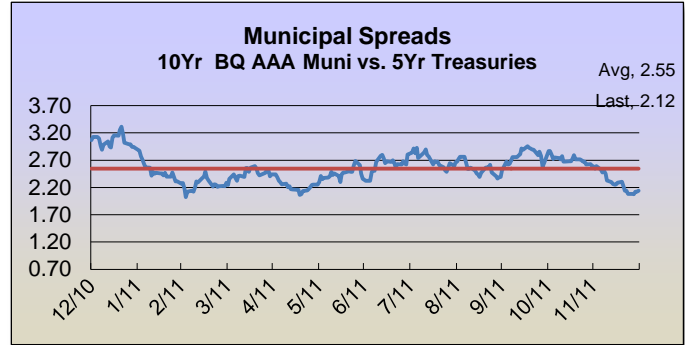
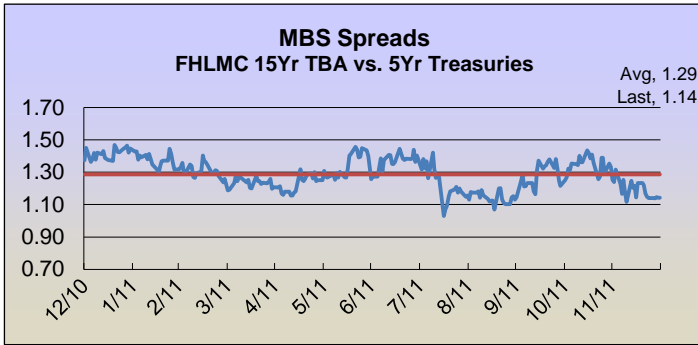
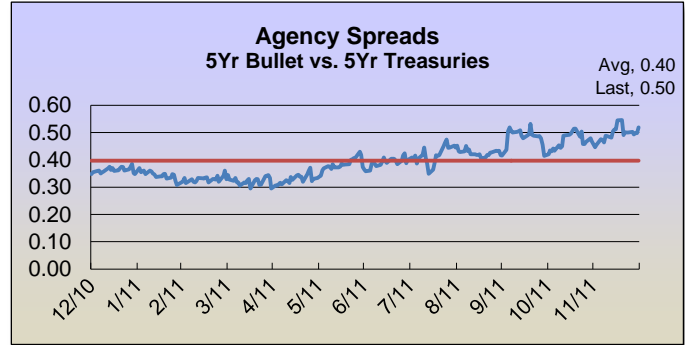
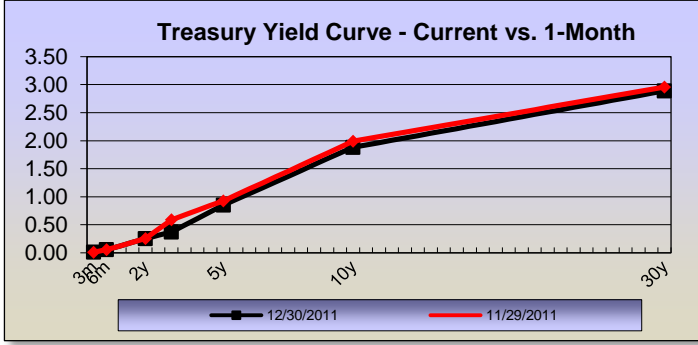
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# Baker Market Update



December 30, 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 <sup>2</sup>	S-Corp <sup>3</sup>		Maty	3Mo	6mo	1Yr	2Yr
3mo	0.01	0.01	0.00	0.02	0.11	3mo	0.11					2Yr	0.00	0.00	0.44	-
6mo	0.06	0.02	0.05	0.10	0.19	6mo	0.15					3Yr	0.00	0.00	0.70	0.68
1yr	0.10	(0.01)	0.11	0.19	0.27	1yr	0.18		0.80	0.82	1.00	5Yr	0.00	1.23	1.30	1.31
2yr	0.25	(0.03)	0.26	0.46	0.64	2yr	0.45	0.73	1.00	1.04	1.20	7Yr	0.00	1.78	1.86	1.83
3yr	0.37	(0.06)	0.39	0.89	1.12	3yr	0.70	0.83	1.40	1.45	1.45	10Yr	0.00	2.31	2.41	2.39
5yr	0.85	(0.12)	0.95	1.76	2.06	5yr	1.24	1.24	1.74	1.81	1.85	January TBA MBS				
7yr	1.36	(0.14)	1.52	2.50	2.77	7yr	1.78	1.66	2.40	2.48	2.35	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.88	(0.14)	2.07	3.16	3.37	10yr	2.50	2.05	2.97	3.05	3.00	4.00	1.62	2.5y	2.30	3.3y
30yr	2.89	(0.17)	3.06	4.37	4.42	20yr	3.35		5.08	3.16	4.60	4.50	1.73	2.6y	1.60	2.41y
												5.00	1.59	2.39y	1.49	2.47y
												5.50	1.97	2.61y	1.92	2.7y
												6.00	2.81	2.77y	2.07	2.82y

\* 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	0.00	0.27	0.19	0.26
3 Month LIBOR	0.58	0.01	0.53	0.25	0.30
6 Month LIBOR	0.81	0.00	0.75	0.40	0.46
1 Year LIBOR	1.13	0.00	1.07	0.73	0.78
6 Month CD	0.78	--	0.73	0.38	0.43
1 Year CMT	0.12	--	0.14	0.19	0.30
REPO O/N	0.05	--	0.09	0.00	0.09
REPO 1Wk	0.02	--	0.08	0.02	0.14
CoF National Med	1.22	--	1.25	1.39	1.62
11th District CoF	1.22	--	1.28	1.36	1.65

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.15	0.21	0.15	0.30
6mo	0.20	0.25	0.20	0.35
1yr	0.30	0.39	0.28	0.44
2yr	0.52	0.76	0.99	0.75
3yr	0.85	1.04	1.10	1.00
4yr	1.14	1.35	1.32	1.30
5yr	1.35	1.57	1.55	1.55
7yr	1.98	2.19	2.12	--
10yr	2.58	2.89	2.59	2.71
5yr Am	1.07		1.27	1.25
10yr Am	2.13		2.07	2.12

Fed Fund Futures	
Maturity	Rate
Dec-11	0.070
Jan-12	0.075
Feb-12	0.085
Mar-12	0.090
Apr-12	0.095
May-12	0.105
Jun-12	0.110
Jul-12	0.120
Aug-12	0.130
Sep-12	0.135
Oct-12	0.145

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# Baker Market Update



December 30, 2011

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/22	U. of Michigan Confidence	DEC F	68.0	69.9	67.7	--
12/22	Leading Indicators	NOV	0.3%	0.5%	0.9%	--
12/22	House Price Index MoM	OCT	0.2%	-0.2%	0.9%	0.4%
12/23	Durable Goods Orders	NOV	2.2%	3.8%	-0.7%	0.0%
12/23	Durables Ex Transportation	NOV	0.4%	0.3%	0.7%	1.5%
12/23	Cap Goods Orders Nondef Ex Air	NOV	1.0%	-1.2%	-1.8%	-0.9%
12/23	Cap Goods Ship Nondef Ex Air	NOV	--	-1.0%	-1.1%	-0.8%
12/23	Personal Income	NOV	0.2%	0.1%	0.4%	--
12/23	Personal Spending	NOV	0.3%	0.1%	0.1%	--
12/23	PCE Deflator (YoY)	NOV	2.7%	2.5%	2.7%	--
12/23	PCE Core (MoM)	NOV	0.1%	0.1%	0.1%	--
12/23	PCE Core (YoY)	NOV	1.7%	1.7%	1.7%	--
12/23	New Home Sales	NOV	315K	315K	307K	310K
12/23	New Home Sales MoM	NOV	2.6%	1.6%	1.3%	1.3%
12/27	S&P/CS 20 City MoM% SA	OCT	-0.4%	-0.6%	-0.6%	-0.7%
12/27	S&P/CS Composite-20 YoY	OCT	-3.2%	-3.4%	-3.6%	-3.5%
12/27	S&P/CaseShiller Home Price Ind	OCT	--	140.3	142.0	142.0
12/27	Consumer Confidence	DEC	58.90	64.50	56.00	55.20
12/27	Richmond Fed Manuf. Index	DEC	5.00	3.00	0.00	--
12/27	Dallas Fed Manf. Activity	DEC	4.80	(3.0)	3.20	--
12/29	Initial Jobless Claims	12/24	375K	381K	364K	366K
12/29	Continuing Claims	12/17	3600K	3601K	3546K	3576K
12/29	Chicago Purchasing Manager	DEC	61.00	62.50	62.60	--
12/29	Bloomberg Consumer Comfort	12/25	--	-47.50	-45.00	--
12/29	Pending Home Sales MoM	NOV	1.5%	7.3%	10.4%	--
12/29	Pending Home Sales YoY	NOV	--	6.9%	7.3%	--
12/29	Kansas City Fed Manf. Activity	DEC	6.00	-4.00	4.00	--
01/03	Construction Spending MoM	NOV	0.5%	--	0.8%	--
01/03	ISM Manufacturing	DEC	53.20	--	52.70	--
01/03	ISM Prices Paid	DEC	47.90	--	45.00	--
01/04	MBA Mortgage Applications	12/30	--	--	--	--
01/04	Factory Orders	NOV	1.9%	--	-0.4%	--
01/04	Total Vehicle Sales	DEC	13.52M	--	13.59M	--
01/04	Domestic Vehicle Sales	DEC	10.40M	--	10.53M	--
01/05	ADP Employment Change	DEC	175K	--	206K	--
01/05	Initial Jobless Claims	12/31	375K	--	381K	--
01/05	Continuing Claims	12/24	3573K	--	3601K	--
01/05	Bloomberg Consumer Comfort	1/1	--	--	-47.50	--
01/05	ISM Non-Manf. Composite	DEC	53.0	--	52.00	--
01/06	Change in Nonfarm Payrolls	DEC	150K	--	120K	--
01/06	Change in Private Payrolls	DEC	170K	--	140K	--
01/06	Change in Manuf. Payrolls	DEC	6K	--	2K	--
01/06	Unemployment Rate	DEC	8.7%	--	8.6%	--
01/06	Underemployment Rate (U6)	DEC	--	--	0.16	--
01/06	Avg Hourly Earning MOM All Emp	DEC	0.2%	--	-0.1%	--
01/06	Avg Hourly Earning YOY All Emp	DEC	2.1%	--	1.8%	--
01/06	Avg Weekly Hours All Employees	DEC	34.30	--	34.30	--

MBS Prepayments <sup>4</sup>					
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	447	480	425	384	345
FH/FN 15y	450	476	425	382	342
GN 15y	342	429	391	350	252
FH/FN 20y	482	483	465	406	385
FH/FN 30y	582	557	510	483	469
GN 30y	422	474	467	494	455

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	77.19	(0.90)	77.62	80.56	81.53
Euro	1.30	(0.01)	1.34	1.45	1.33
Dollar Index	80.18	0.21	78.38	74.30	79.52
<b>Major Stock Indices</b>					
Dow Jones	12,272.0	102.3	12,045.7	12,414.3	11,569.7
S&P 500	1,262.3	8.3	1,247.0	1,320.6	1,257.9
NASDAQ	2,612.9	13.5	2,620.3	2,773.5	2,663.0
<b>Commodities</b>					
Gold	1,567.80	(42.80)	1,750.30	1,506.40	1,419.50
Crude Oil	98.68	(0.85)	100.46	98.38	92.80
Natural Gas	3.02	(0.19)	3.58	4.84	5.14
Wheat	650.8	29.0	614.0	695.5	858.8
Corn	644.50	27.00	608.00	632.75	559.25

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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