

Week in Review

Treasuries continue their three-week rally as recent data suggests a more pessimistic economic outlook along with the Fed's renewal of asset purchases. In their latest FOMC meeting on Tuesday, the Fed announced that it will restart its U.S. debt purchase program to "support the economic recovery in a context of price stability". With the looming concern of a slowing economy and worries of a deflationary environment, the Fed stated that it will roughly maintain its \$2.3 trillion balance sheet with purchases of Treasury securities from the roll-off/maturing balance of its assets. Additionally, the Fed noted "...the pace of economic recovery is likely to be more modest in the near term than had been anticipated".

With the prospect of more economic headwinds, along with the renewal of Fed Treasury purchases, the yield on the 10Yr Treasury Note today hit its lowest yield since April of last year. Since Friday's close, the benchmark yield down from 2.82% to 2.68%.

This morning, July's report for the cost of living showed a slightly higher-than-expected increase (+0.3% vs. +0.2%), but prices less the volatile food and energy sectors slowed to just a 0.1% increase. Even so, inflation is relatively benign on a year-over-year basis, as the core CPI has leveled out for the third straight month at 0.9%; its lowest level since 1966. Also out today was the retail sales index for the month of July, which rose less than economists were anticipating. Sales less autos and gasoline unexpectedly fell 0.1% for the same month. Consumer confidence inched up recently, but has remained relatively suboptimal still near its 8month low.

Looking forward, economists expect producer prices to inch up in July, stemming mainly from the run up in energy prices during the month. Industrial production in July should pick up as well, along with a slight increase in capacity utilization. Housing starts for the same month are expected to increase 0.2%, whereas building permits, a gauge of future construction, should fall 1.2%.

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The yield on the 10Yr Treasury Note peaked recently at 4.00% in early April and has since fallen about 132bps to 2.68%. With recent economic data pointing to slower growth and even a possible Japanese style recovery, these factors are being manifested in the 10Yr Note's lower yield. Since April, the 10Yr Note yield trend generally fell within one standard deviation (grey lines) of the mean (red line).

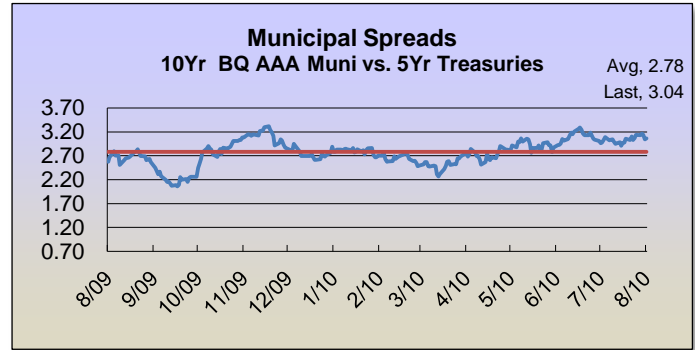
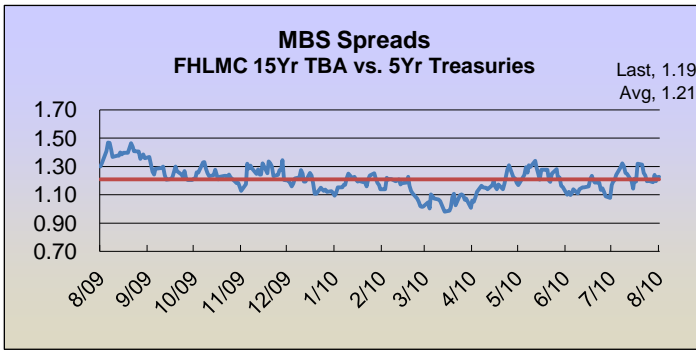
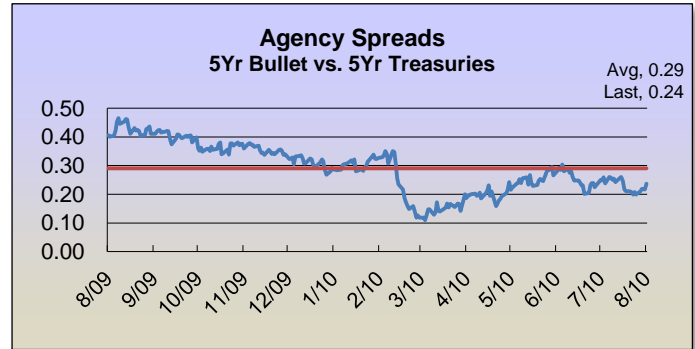
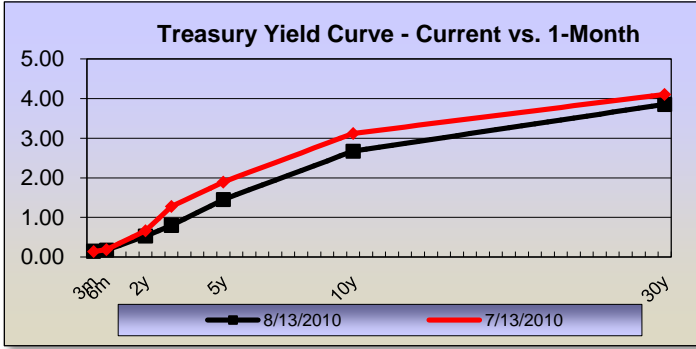
10Yr Treasury Note - Last 12 Months



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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	0.15	0.01	0.15	0.09	0.17	3mo	0.18					2Yr	0.59	0.62	0.67	-
6mo	0.18	(0.01)	0.20	0.17	0.26	6mo	0.23					3Yr	0.94	1.03	1.02	0.98
1yr	0.23	(0.01)	0.29	0.34	0.42	1yr	0.33		0.77	0.79	0.82	5Yr	1.78	1.83	1.82	1.75
2yr	0.53	0.02	0.67	0.83	1.09	2yr	0.66	0.73	0.89	0.91	1.24	7Yr	2.38	2.39	2.45	2.39
3yr	0.80	(0.01)	1.10	1.33	1.58	3yr	0.95	1.05	1.33	1.37	1.78	10Yr	2.86	2.94	3.04	3.01
5yr	1.45	(0.05)	1.90	2.33	2.56	5yr	1.75	1.67	1.95	2.00	2.19	September TBA MBS				
7yr	2.06	(0.14)	2.57	3.10	3.22	7yr	2.34	2.18	3.15	3.23	2.97	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.67	(0.14)	3.12	3.69	3.60	10yr	3.05	2.66	3.83	3.88	3.62	4.00	2.62	3.71y	3.35	5.07y
30yr	3.85	(0.14)	4.11	4.65	4.43	20yr	4.15		5.42	5.49	5.20	4.50	2.31	2.92y	2.83	3.03y
												5.00	1.81	2.24y	2.11	2.36y
												5.50	1.97	2.32y	1.62	2.02y
												6.00	2.18	2.29y	1.31	1.86y

* 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	0.50	0.50
2ndary Discount	1.25	--	1.25	1.00	1.00
Prime Rate	3.25	--	3.25	3.25	3.25
1 Month LIBOR	0.27	(0.02)	0.34	0.23	0.27
3 Month LIBOR	0.37	(0.04)	0.53	0.25	0.44
6 Month LIBOR	0.59	(0.04)	0.73	0.39	0.85
1 Year LIBOR	0.97	(0.04)	1.15	0.85	1.42
6 Month CD	0.57	(0.05)	0.72	0.32	0.87
1 Year CMT	0.25	(0.02)	0.30	0.35	0.47
REPO O/N	0.15	--	0.10	0.03	0.05
REPO 1Wk	0.13	--	0.11	0.04	0.05
CoF National Med	1.80	--	1.83	2.13	2.48
11th District CoF	1.80	--	1.79	1.83	1.60

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.49	0.34	0.22	0.37
6mo	0.53	0.37	0.26	0.49
1yr	0.66	0.58	0.37	0.59
2yr	0.97	1.03	1.00	1.03
3yr	1.27	1.41	1.31	1.33
4yr	1.62	1.76	1.67	1.69
5yr	1.97	2.11	2.00	2.06
7yr	2.63	2.84	2.58	--
10yr	3.37	3.58	3.17	3.38
5yr Am	1.48		1.58	1.64
10yr Am	2.76		2.55	2.69

Fed Fund Futures	
Maturity	Rate
Aug-10	0.180
Sep-10	0.175
Oct-10	0.165
Nov-10	0.170
Dec-10	0.165
Jan-11	0.165
Feb-11	0.180
Mar-11	0.195
Apr-11	0.220
May-11	0.255
Jun-11	0.265

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/09	U.S. to Sell USD30 Bln 3-Month Bills; High Yld 0.15%					
08/09	U.S. to Sell USD30 Bln 6-Month Bills; High Yld 0.19%					
08/10	Nonfarm Productivity	2Q P	0.1%	-0.9%	2.8%	3.9%
08/10	Unit Labor Costs	2Q P	1.5%	0.2%	1.3%	-3.7%
08/10	Wholesale Inventories	JUN	0.4%	0.1%	0.5%	--
08/10	U.S. Sells USD31 Bln 4-Week Bills; High Yld 0.145%					
08/10	U.S. Sells USD34 Bln 3-Year Notes; High Yld 0.844%					
08/10	FOMC Rate Decision	8/10	0.25%	0.25%	0.25%	--
08/11	MBA Mortgage Applications	8/6	--	0.6%	1.3%	--
08/11	Trade Balance	JUN	-\$42.1B	-\$49.9B	-\$42.3B	-\$42.0B
08/11	U.S. to Sell USD25 Bln 56-Day CMB's; High Yld 0.135%					
08/11	U.S. Sells USD24 Bln 10-Year Notes; High Yld 2.73%					
08/11	Monthly Budget Statement	JUL	-\$169.0B	-\$165.0B	-\$180.7B	--
08/12	Import Price Index (MoM)	JUL	0.3%	0.2%	-1.3%	--
08/12	Import Price Index (YoY)	JUL	5.4%	4.9%	4.5%	4.2%
08/12	Initial Jobless Claims	8/7	465K	484K	479K	482K
08/12	Continuing Claims	7/31	4535K	4452K	4537K	4570K
08/12	U.S. to Sell USD16 Bln 30-Year Notes; High Yld 3.954%					
08/13	Consumer Price Index (MoM)	JUL	0.2%	0.3%	-0.1%	--
08/13	CPI Ex Food & Energy (MoM)	JUL	0.1%	0.1%	0.2%	--
08/13	Consumer Price Index (YoY)	JUL	1.2%	1.2%	1.1%	--
08/13	CPI Ex Food & Energy (YoY)	JUL	0.9%	0.9%	0.9%	--
08/13	Advance Retail Sales	JUL	0.5%	0.4%	0.5%	-0.3%
08/13	Retail Sales Less Autos	JUL	0.3%	0.2%	-0.1%	--
08/13	Retail Sales Ex Auto & Gas	JUL	0.1%	-0.1%	0.1%	0.2%
08/13	U. of Michigan Confidence	AUG P	69.0	69.6	67.8	--
08/13	Business Inventories	JUN	0.2%	0.3%	0.1%	0.2%
08/16	Empire Manufacturing	AUG	825.0%	--	508.0%	--
08/16	Net Long-term TIC Flows	JUN	--	--	\$35.4B	--
08/16	Total Net TIC Flows	JUN	--	--	\$17.5B	--
08/16	U.S. to Sell USD30 Bln 3-Month Bills					
08/16	U.S. to Sell USD30 Bln 6-Month Bills					
08/17	Producer Price Index (MoM)	JUL	0.2%	--	-0.5%	--
08/17	PPI Ex Food & Energy (MoM)	JUL	0.2%	--	0.1%	--
08/17	Producer Price Index (YoY)	JUL	4.2%	--	2.8%	--
08/17	PPI Ex Food & Energy (YoY)	JUL	1.3%	--	1.1%	--
08/17	Housing Starts	JUL	560K	--	549K	--
08/17	Housing Starts MOM%	JUL	2.0%	--	-5.0%	--
08/17	Building Permits	JUL	576K	--	586K	583K
08/17	Building Permits MOM%	JUL	-1.2%	--	2.1%	--
08/17	Industrial Production	JUL	0.5%	--	0.1%	--
08/17	Capacity Utilization	JUL	74.5%	--	74.1%	--
08/17	U.S. to Sell 4-Week Bills					
08/19	Initial Jobless Claims	8/14	480K	--	484K	--
08/19	Continuing Claims	8/7	--	--	4452K	--
08/19	Philadelphia Fed.	AUG	7.5	--	5.1	--
08/19	Leading Indicators	JUL	0.1%	--	-0.2%	--

MBS Prepayments ⁴					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FH 5y Balloon	85.0	64.6	30.5	75.3	
FH/FN 7y Balloon	61.7	44.8	39.7	17.1	
FN 10y	19.4	23.0	23.1	20.9	20.3
FH/FN 15y	16.5	20.0	22.6	19.8	16.4
GN 15y	9.7	9.7	16.7	23.1	22.2
FH/FN 20y	10.1	20.7	24.5	23.0	18.2
FH/FN 30y	8.9	19.4	27.1	24.9	23.5
GN 30y	6.5	15.4	22.6	27.7	29.8

PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FH 5y Balloon	102	735	100	938	938
FH/FN 7y Balloon	490	480	850	802	--
FN 10y	450	535	511	515	439
FH/FN 15y	448	528	511	514	433
GN 15y	339	444	466	439	388
FH/FN 20y	457	597	688	491	492
FH/FN 30y	575	779	657	700	701
GN 30y	394	637	625	679	685

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	86.24	0.73	88.74	90.02	95.48
Euro	1.28	(0.05)	1.27	1.36	1.43
Dollar Index	82.95	2.54	83.64	80.22	78.49
Major Stock Indices					
Dow Jones	10,303.2	(350.4)	10,363.0	10,099.1	9,398.2
S&P 500	1,079.3	(42.4)	1,095.3	1,075.5	1,012.7
NASDAQ	2,173.5	(115.0)	2,242.0	2,183.5	2,009.4
Commodities					
Gold	1,217.30	12.00	1,217.40	1,094.30	967.70
Crude Oil	75.61	(5.09)	77.59	76.95	79.25
Natural Gas	4.32	(0.14)	4.36	5.73	5.98
Wheat	734.25	(21.00)	578.25	554.50	584.75
Corn	427.25	7.25	387.00	397.25	380.25

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: 08/13/2010 3:57PM

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