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Initial claims have seen a significant drop in recent weeks signaling the labor market may be picking up steam in 2011.

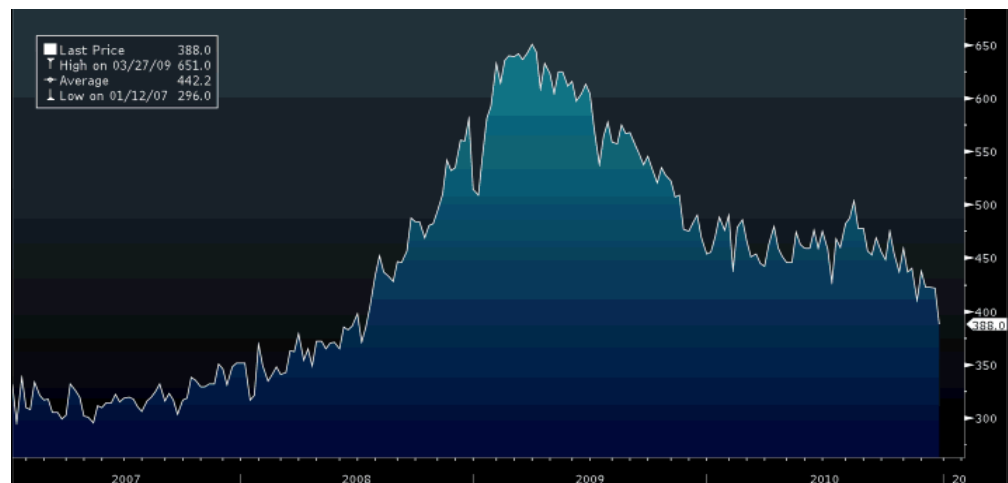
Week in Review

Treasury yields remained elevated this week as trading volume was limited due to holiday travel and severe Northeastern snowstorms. As December ends, treasuries will post their largest one month drop of the year in reaction to recent positive economic data. After rallying three quarters of the year, yields increased sharply in the last quarter as market participants view the second round Federal Reserve asset purchases and recent tax cut extensions as significant steps to revive a stagnant economy.

Economic data for the final week of the year was mixed. Initial Jobless Claims, released by the US Department of Labor, decreased again this week showing a reduction from 388K from 422K, hitting the lowest level since July 2008. Some economists suggest these claims will need to be sub-400K going forward for the economy to see a substantial gain in hiring. On the other hand, The Conference Board reported its Consumer Confidence Index fell to 52.5 from a previous 54.3 from the month prior. The consensus expectation was for improvement from the month prior, but the actual number decreased amid concerns over high unemployment.

Looking to next week's data releases, analysts expect auto and truck sales to decline from 3.8M to 3.7MM and 5.5MM to 5.3MM, respectively. Also, factory orders, consisting of both durable and non-durable goods are expected to improve to a -.9% decline to -.4%. Most importantly, the Bureau of Labor Statistics will also release the monthly Employment report for December which be highly scrutinized for improvements in the labor market. Unemployment is expected to remain at 9.8% or possible increase to 9.9% and Non-farm pay rolls are expected to improve to 130K from only 39K in November.

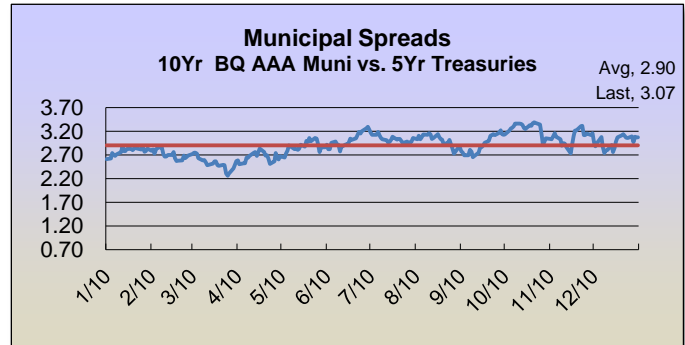
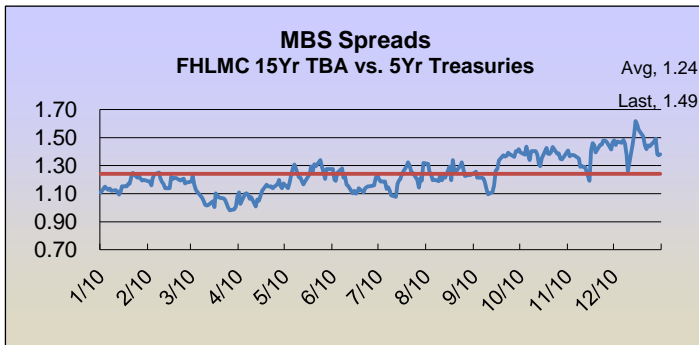
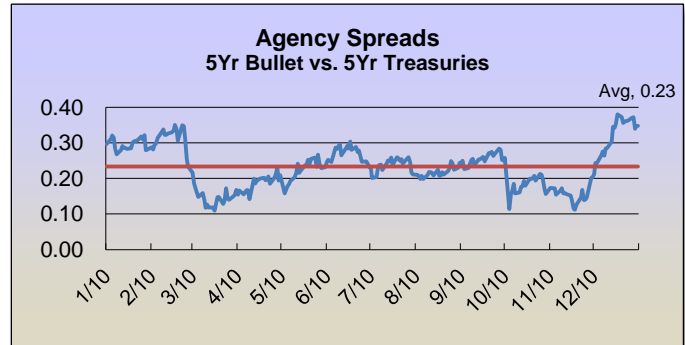
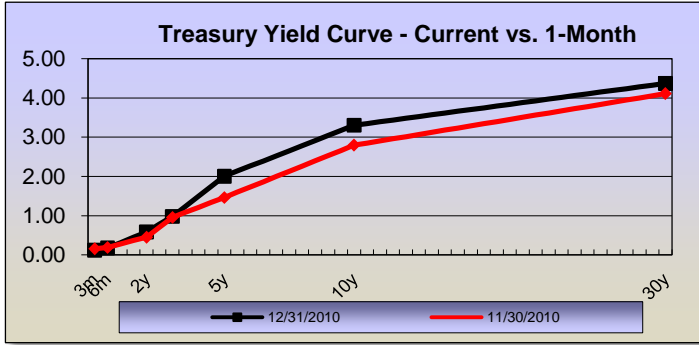
Initial Jobless Claims 2007 - Present



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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	0.12	(0.02)	0.17	0.18	0.05	3mo	0.13					2Yr	0.75	0.86	0.86	-
6mo	0.18	(0.01)	0.20	0.22	0.19	6mo	0.24					3Yr	1.35	1.45	1.44	1.38
1yr	0.26	(0.03)	0.26	0.31	0.44	1yr	0.35		1.45	1.47	1.65	5Yr	2.36	2.50	2.46	2.39
2yr	0.59	(0.07)	0.46	0.61	1.14	2yr	0.80	0.79	2.04	2.09	2.15	7Yr	3.03	3.23	3.22	3.14
3yr	0.98	(0.06)	0.70	1.00	1.65	3yr	1.25	1.27	2.50	2.55	2.82	10Yr	3.63	3.84	3.85	3.79
5yr	2.01	(0.05)	1.47	1.77	2.68	5yr	2.35	2.18	3.24	3.35	3.23	January TBA MBS				
7yr	2.71	(0.07)	2.15	2.41	3.39	7yr	3.05	2.82	4.52	4.65	4.06	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.31	(0.09)	2.80	2.93	3.84	10yr	3.80	3.39	5.25	5.40	5.59	4.00	3.09	3.74y	4.10	7.71y
30yr	4.37	(0.10)	4.11	3.89	4.64	20yr	4.70		6.79	6.88	6.41	4.50	2.77	3.12y	3.96	5.97y
												5.00	2.52	2.74y	3.37	3.62y
												5.50	2.50	2.79y	2.92	3.08y
												6.00	2.66	2.87y	2.46	2.71y

* 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	0.50
2ndary Discount	1.25	--	1.25	1.25	1.00
Prime Rate	3.25	--	3.25	3.25	3.25
1 Month LIBOR	0.26	--	0.26	0.35	0.23
3 Month LIBOR	0.30	--	0.30	0.53	0.25
6 Month LIBOR	0.46	(0.00)	0.46	0.75	0.43
1 Year LIBOR	0.78	(0.00)	0.79	1.17	0.98
6 Month CD	0.43	--	0.44	0.74	0.30
1 Year CMT	0.29	(0.01)	0.27	0.32	0.45
REPO O/N	0.15	--	0.18	0.07	0.00
REPO 1Wk	0.20	--	0.15	0.12	0.05
CoF National Med	1.62	--	1.66	1.83	2.17
11th District CoF	1.65	--	1.66	1.83	1.26

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.39	0.35	0.29	0.37
6mo	0.46	0.41	0.36	0.52
1yr	0.66	0.57	0.45	0.61
2yr	1.08	1.12	1.14	1.10
3yr	1.55	1.65	1.61	1.59
4yr	2.09	2.20	2.09	2.16
5yr	2.58	2.69	2.52	2.68
7yr	3.39	3.58	3.20	--
10yr	4.05	4.27	3.82	4.08
5yr Am	1.80		1.95	2.04
10yr Am	3.27		3.13	3.31

Fed Fund Futures	
Maturity	Rate
Dec-10	0.185
Jan-11	0.185
Mar-11	0.185
Apr-11	0.185
May-11	0.185
Jun-11	0.190
Jul-11	0.200
Aug-11	0.215
Sep-11	0.230
Oct-11	0.255
Nov-11	0.300

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/27	Dallas Fed Manf. Activity	DEC	17.00	12.80	16.20	--
12/27	U.S. Sells USD29 Bln 3-Month Bills; High Yld 0.18%					
12/27	U.S. Sells USD28 Bln 6-Month Bills; High Yld 0.225%					
12/27	U.S. Sells USD35 Bln 2-Year Notes; High Yld 0.740%					
12/28	S&P/CaseShiller Home Price Ind	OCT	--	145.32	-447.49	147.27
12/28	S&P/CS 20 City MoM% SA	OCT	-0.6%	-1.0%	-0.8%	-1.0%
12/28	S&P/CS Composite-20 YoY	OCT	-0.2%	-0.8%	0.6%	0.4%
12/28	Consumer Confidence	DEC	56.30	52.50	-54.10	54.30
12/28	Richmond Fed Manufact. Index	DEC	11.00	25.00	9.00	--
12/28	U.S. Fed Purchases USD6.78 Bln Notes/Bonds					
12/28	U.S. Sells USD25 Bln 4-Week Bills; High Yld 0.065%					
12/28	U.S. Sells USD35 Bln 5-Year Notes; High Yld 2.149%					
12/29	U.S. Fed Purchases USD5.387 Bln Notes/Bonds					
12/29	U.S. Sells USD25 Bln 56-Day CMB's; High Yld 0.12%					
12/29	U.S. Sells USD29 Bln 7-Year Notes; High Yld 2.83%					
12/30	Initial Jobless Claims	12/25	415K	388K	420K	422K
12/30	Continuing Claims	12/18	4084K	4128K	4064K	4071K
12/30	Chicago Purchasing Manager	DEC	61.00	68.60	62.50	--
12/30	Pending Home Sales MoM	NOV	0.8%	3.5%	10.4%	10.1%
12/30	Pending Home Sales YoY	NOV	--	-2.4%	-22.4%	-22.6%
01/03	ISM Manufacturing	DEC	57.00	--	56.60	--
01/03	Construction Spending MoM	NOV	0.2%	--	0.7%	--
01/03	U.S. Fed to Purchase USD7-9 Bln Notes/Bonds					
01/03	U.S. to Sell USD29 Bln 3-Month Bills					
01/03	U.S. to Sell USD28 Bln 6-Month Bills					
01/04	Factory Orders	NOV	-0.2%	--	-0.9%	--
01/04	U.S. Fed to Purchase USD1-2 Bln TIPS					
01/04	U.S. to Sell 4-Week Bills					
01/04	ABC Consumer Confidence	1/2	--	--	(44.00)	--
01/04	Domestic Vehicle Sales	DEC	9.20M	--	9.27M	--
01/04	Total Vehicle Sales	DEC	12.30M	--	12.26M	--
01/05	MBA Mortgage Applications	12/31	--	--	--	--
01/05	ADP Employment Change	DEC	100K	--	93K	--
01/05	ISM Non-Manf. Composite	DEC	55.50	--	55.00	--
01/05	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds					
01/06	Initial Jobless Claims	1/1	400K	--	388K	--
01/06	Continuing Claims	12/25	4080K	--	4128K	--
01/06	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds					
01/07	Change in Private Payrolls	DEC	145K	--	50K	--
01/07	Change in Nonfarm Payrolls	DEC	135K	--	39K	--
01/07	Change in Manufact. Payrolls	DEC	0K	--	-13K	--
01/07	Unemployment Rate	DEC	9.7%	--	0.10	--
01/07	Avg Hourly Earning MOM All Emp	DEC	0.2%	--	0.0%	--
01/07	Avg Hourly Earning YOY All Emp	DEC	1.8%	--	1.6%	--
01/07	Avg Weekly Hours All Employees	DEC	34.3	--	34.3	--
01/07	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds					
01/07	Consumer Credit	NOV	\$0.0B	--	\$3.4B	--

MBS Prepayments ⁴					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FH 5y Balloon	39.6	67.3	44.7	41.4	
FH/FN 7y Balloon	67.2	49.0	46.6	35.7	
FN 10y	25.4	24.9	25.4	22.3	20.9
FH/FN 15y	28.5	27.2	26.2	21.9	17.0
GN 15y	16.3	16.3	17.2	17.5	14.6
FH/FN 20y	26.2	33.3	31.8	26.7	19.4
FH/FN 30y	25.5	32.8	32.0	28.2	23.7
GN 30y	14.8	26.1	28.0	26.3	21.8

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	366	417	403	385	408
FH/FN 15y	366	414	412	400	388
GN 15y	307	354	408	367	344
FH/FN 20y	307	363	442	418	407
FH/FN 30y	252	392	448	509	501
GN 30y	252	367	428	497	531

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	81.16	(1.72)	83.69	88.43	93.02
Euro	1.34	0.03	1.30	1.22	1.43
Dollar Index	78.91	(1.61)	81.20	86.02	77.86
Major Stock Indices					
Dow Jones	11,596.1	22.6	11,006.0	9,774.0	10,428.1
S&P 500	1,259.3	2.5	1,180.6	1,030.7	1,115.1
NASDAQ	2,654.7	(10.9)	2,498.2	2,109.2	2,269.2
Commodities					
Gold	1,418.90	38.40	1,386.10	1,252.00	1,106.80
Crude Oil	91.22	(0.29)	84.65	78.16	84.71
Natural Gas	4.42	0.29	4.20	5.40	6.75
Wheat	791.50	8.50	690.50	533.50	624.50
Corn	626.50	12.50	544.00	386.50	449.75

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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