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The durability of the recent resurgence in the manufacturing sector suffered a bit of a setback early in the week as a 4% decline in Durable Goods orders was reported on Tuesday. This unexpected turn of events was followed up on Thursday by a downturn in the Institute of Supply Managers' Index. Last month's reading of 54.1 slipped to 52.4. Sandwiched between this disappointing news was the upward revision of Q4 GDP from 2.8% to 3.0%. Future prospects may be dimming, but the past is getting brighter.

The Fed's Beige Book lived up to its bland name with the observation that economic activity is expected to proceed at a "modest to moderate" pace. One wouldn't know it by February's motor vehicle sales, though, as they reached their highest level since March 2008. Pent-up demand and unseasonably warm weather get at least part of the credit for this sales burst.

Cautious optimism continues to describe the labor market as Initial Jobless Claims are as low as they've been in 4 years. At 351m this week, however, still appreciably higher than what one would expect at this point in a recovery. For housing, the release of the Case-Shiller 20 City Home Price Index showed a 3.99% drop in year-over-year home prices; slightly worse than the 3.65% expected decline. Despite this news, the Conference Board's Consumer Confidence Index reached its highest level in a year, as that measurement reached a much higher than expected 70.8. Consensus estimates had that number coming in at only 63. Spring is in the air!

Throughout the week, the Treasury market, as tracked by the benchmark Ten Year Note, bounced around from a 1.92% yield early in the week to a high of 2.02% reached on Thursday. Slight price improvement this morning has that yield down to 1.97%. Next week's big news will be new Unemployment and Non-farm Payroll statistics on Friday.

Pent-up demand and mild winter weather have resulted in surprisingly robust car sales.

Total U.S. Auto Sales - Since 1970



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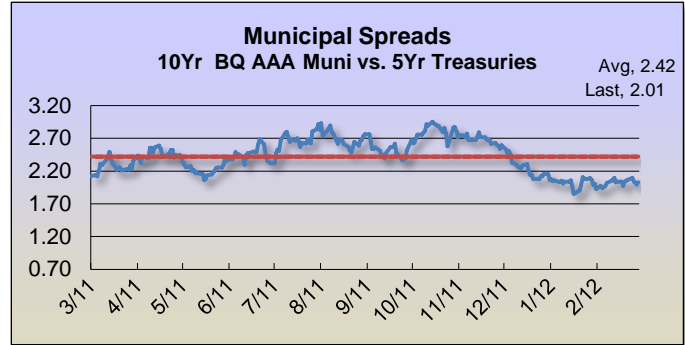
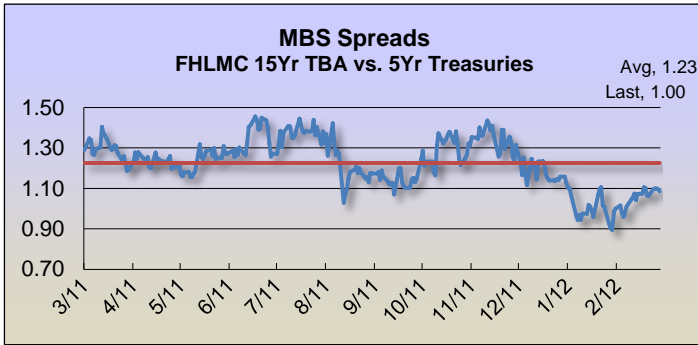
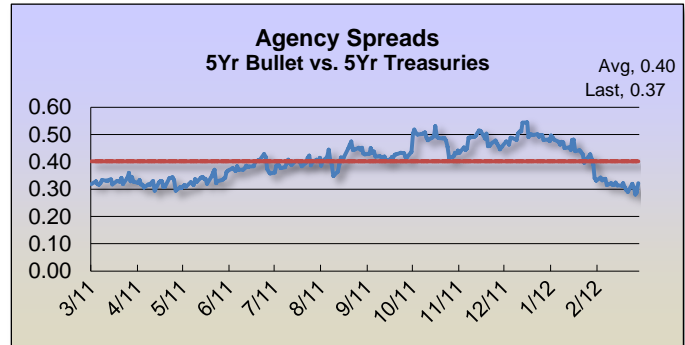
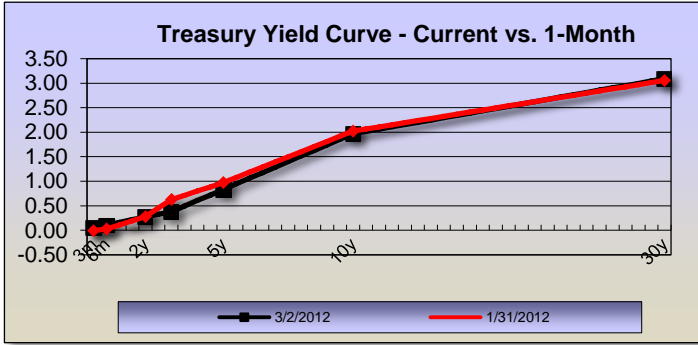
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Baker Market Update



March 2, 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		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.06	(0.03)	0.08	0.02	0.13	3mo	0.12					2Yr	-	-	0.29	-
6mo	0.11	(0.02)	0.09	0.05	0.16	6mo	0.18					3Yr	-	-	0.46	0.57
1yr	0.15	(0.01)	0.13	0.10	0.24	1yr	0.20		0.65	0.66	0.50	5Yr	-	1.09	1.13	1.16
2yr	0.27	(0.03)	0.22	0.20	0.69	2yr	0.37	0.52	0.79	0.81	0.65	7Yr	-	1.70	1.85	1.85
3yr	0.38	(0.04)	0.30	0.42	1.19	3yr	0.49	0.64	1.01	1.03	0.85	10Yr	-	2.40	2.49	2.47
5yr	0.83	(0.06)	0.71	0.86	2.17	5yr	1.07	1.10	1.37	1.40	1.40	April TBA MBS				
7yr	1.37	(0.03)	1.24	1.39	2.88	7yr	1.63	1.57	2.10	2.13	2.05	Cpn	15Yr -Yld/AL	30Yr -Yld/AL		
10yr	1.97	(0.01)	1.82	1.99	3.47	10yr	2.35	2.06	3.05	3.10	2.65	4.00	1.64	2.64y	2.31	3.37y
30yr	3.09	(0.01)	3.00	3.30	4.57	20yr	3.24		4.65	4.72	4.25	4.50	1.67	2.64y	1.88	2.7y
												5.00	1.57	2.42y	1.78	2.64y
												5.50	2.00	2.68y	1.99	2.72y
												6.00	3.00	2.84y	2.08	2.76y

* 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	0.24	--	0.26	0.22	0.26
3 Month LIBOR	0.48	--	0.53	0.33	0.31
6 Month LIBOR	0.75	--	0.77	0.49	0.46
1 Year LIBOR	1.06	--	1.09	0.80	0.79
6 Month CD	0.73	--	0.75	0.50	0.44
1 Year CMT	0.18	--	0.13	0.10	0.25
REPO O/N	0.14	--	0.12	0.04	0.05
REPO 1Wk	0.13	--	0.13	0.03	0.06
CoF National Med	1.16	--	1.20	1.34	1.53
11th District CoF	1.22	--	1.22	1.35	1.48

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.23	0.29	0.17	0.37
6mo	0.27	0.32	0.21	0.43
1yr	0.32	0.41	0.26	0.48
2yr	0.46	0.70	0.66	0.67
3yr	0.75	0.94	0.85	0.86
4yr	0.99	1.19	1.08	1.12
5yr	1.27	1.48	1.34	1.42
7yr	1.84	2.12	2.07	--
10yr	2.57	2.89	2.74	2.66
5yr Am	0.96		1.03	1.12
10yr Am	2.04		2.05	2.03

Fed Fund Futures	
Maturity	Rate
Mar-12	0.105
Apr-12	0.110
May-12	0.110
Jun-12	0.115
Jul-12	0.120
Aug-12	0.130
Sep-12	0.135
Oct-12	0.145
Nov-12	0.155
Dec-12	0.150
Jan-13	0.160

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Baker Market Update



March 2, 2012

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
02/27	Pending Home Sales MoM	JAN	1.0%	2.0%	-3.5%	-1.9%
02/27	Dallas Fed Manf. Activity	FEB	15.8	17.8	15.3	--
02/28	Durable Goods Orders	JAN	-1.0%	-4.0%	3.0%	3.2%
02/28	Durables Ex Transportation	JAN	0.0%	-3.2%	2.1%	--
02/28	Cap Goods Orders Nondef Ex Air	JAN	-1.30%	-4.5%	2.9%	3.4%
02/28	Cap Goods Ship Nondef Ex Air	JAN	-0.90%	-3.1%	2.9%	2.8%
02/28	S&P/CS 20 City MoM% SA	DEC	-0.35%	-0.5%	-0.7%	-0.7%
02/28	S&P/CS Composite-20 YoY	DEC	-3.7%	-4.0%	-3.7%	-3.9%
02/28	S&P/Case-Shiller US HPI YOY%	4Q	-4.3%	-4.0%	-3.9%	-3.7%
02/28	S&P/CaseShiller Home Price Ind	DEC	137.1	136.7	138.5	138.2
02/28	Consumer Confidence	FEB	63.0	70.8	61.4	61.5
02/29	MBA Mortgage Applications	2/24	--	-0.3%	-4.5%	--
02/29	GDP QoQ (Annualized)	4Q S	2.8%	3.0%	2.8%	--
02/29	Personal Consumption	4Q S	1.9%	2.1%	2.0%	--
02/29	GDP Price Index	4Q S	0.4%	0.9%	0.4%	0.9%
02/29	Core PCE QoQ	4Q S	1.1%	1.3%	1.1%	1.3%
02/29	Chicago Purchasing Manager	FEB	61.0	64.0	60.2	--
03/01	Personal Income	JAN	0.5%	0.3%	0.5%	--
03/01	Personal Spending	JAN	0.4%	0.2%	0.0%	--
03/01	PCE Deflator (YoY)	JAN	2.3%	2.4%	2.4%	2.5%
03/01	PCE Core (MoM)	JAN	0.2%	0.2%	0.2%	0.1%
03/01	PCE Core (YoY)	JAN	1.8%	1.9%	1.8%	1.9%
03/01	Initial Jobless Claims	2/25	355K	351K	354K	353K
03/01	Continuing Claims	2/18	3418K	3402K	3392K	3404K
03/01	Construction Spending MoM	JAN	1.0%	-0.1%	1.5%	1.4%
03/01	ISM Manufacturing	FEB	54.5	52.4	54.1	--
03/01	ISM Prices Paid	FEB	58.0	61.5	55.5	--
03/01	ICSC Chain Store Sales YoY	FEB	3.5%	6.7%	4.8%	2.7%
03/01	Total Vehicle Sales	FEB	14.00M	15.03M	14.13M	--
03/01	Domestic Vehicle Sales	FEB	11.00M	11.70M	11.05M	--
03/05	ISM Non-Manf. Composite	FEB	56.1	--	56.8	--
03/05	Factory Orders	JAN	-1.3%	--	1.1%	--
03/07	ADP Employment Change	FEB	205K	--	170K	--
03/07	Nonfarm Productivity	4Q F	0.8%	--	0.7%	--
03/07	Unit Labor Costs	4Q F	1.2%	--	1.2%	--
03/07	Consumer Credit	JAN	\$12.00B	--	\$19.308B	--
03/08	Initial Jobless Claims	3/3	350K	--	--	--
03/08	Continuing Claims	2/25	3365K	--	--	--
03/09	Trade Balance	JAN	-\$49.0B	--	-\$48.8B	--
03/09	Change in Nonfarm Payrolls	FEB	210K	--	243K	--
03/09	Change in Private Payrolls	FEB	220K	--	257K	--
03/09	Change in Manufact. Payrolls	FEB	22K	--	50K	--
03/09	Unemployment Rate	FEB	8.3%	--	8.3%	--
03/09	Avg Hourly Earning MOM All Emp	FEB	0.2%	--	0.2%	--
03/09	Avg Hourly Earning YOY All Emp	FEB	2.0%	--	1.9%	--
03/09	Avg Weekly Hours All Employees	FEB	34.5	--	34.50	--
03/09	Wholesale Inventories	JAN	0.6%	--	1.0%	--

MBS Prepayments ⁴					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	26.6	24.7	23.7	18.4	24.8
FH/FN 15y	26.3	23.6	22.0	19.5	16.5
GN 15y	18.8	18.8	16.0	14.8	15.0
FH/FN 20y	26.9	27.2	26.1	22.1	17.5
FH/FN 30y	27.1	26.4	26.2	23.1	20.2
GN 30y	17.5	19.9	22.8	20.9	17.6
PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	441	470	411	369	324
FH/FN 15y	458	470	409	367	325
GN 15y	359	403	389	360	277
FH/FN 20y	484	489	459	404	381
FH/FN 30y	521	534	511	495	479
GN 30y	412	448	460	456	427

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	81.56	0.36	76.22	76.80	81.87
Euro	1.32	(0.02)	1.31	1.42	1.39
Dollar Index	79.41	1.06	78.99	74.76	76.67
Major Stock Indices					
Dow Jones	12,953.1	(29.8)	12,705.4	11,240.3	12,066.8
S&P 500	1,369.7	3.9	1,325.5	1,174.0	1,308.4
NASDAQ	2,980.7	17.0	2,859.7	2,480.3	2,748.1
Commodities					
Gold	1,713.00	(63.40)	1,759.30	1,880.30	1,447.50
Crude Oil	106.50	(3.27)	96.74	88.28	104.49
Natural Gas	2.49	(0.21)	2.72	4.29	4.54
Wheat	666.5	25.3	678.0	822.8	907.3
Corn	649.75	5.75	649.50	778.50	620.00

Notes: ¹ Call Agg = 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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