

Week in Review

Throughout the current 34 month- old recovery, one thing we've learned is that if we keep our expectations low enough, even the most moribund news can be cause for celebration. In light of this morning's jobs report, it seems that we still might be setting the bar a little too high. Despite the already lackluster expectation of a 160m increase in Non-Farm Payrolls, the reported 115m increase for April still managed to disappoint.

Wait a minute. The Unemployment Rate *fell* by .1% to 8.1%. Isn't that good news? Well, it would be if not for the fact that the Labor Force Participation Rate fell by .2% and now stands at a level (63.6%) not seen since bell-bottom pants were still being worn; at least being worn by some of my co-workers. One would have to go back to September 1981, when Prime Rate was 19.5%, to find a lower Participation Rate. If there were any bright spots to be found in today's report, one would be that last month's 120m increase in NFP was revised upward to 154m; and although the unchanged Average Hourly Earnings didn't experience the .2% increase that was expected, they didn't fall, either. Don't you feel better now? Well don't. The Underemployment Rate (U6) remains unchanged at 14.5%.

Earlier in the week, the market received, with little fanfare, some inflation news in the form of a .1% increase in the core rate of the year-over-year Personal Consumption Expenditures Index. This measure now stands at the 2% level previously announced (January FOMC) by Fed Chairman Ben Bernanke as his target rate for inflation. The manufacturing sector got a boost on Tuesday when the Institute of Supply Management Index rose from last month's 53.4 to 54.8, far exceeding the expected value of 53. Unfortunately, the non-manufacturing component (services) of that report did not enjoy a commensurate increase and actually fell to 53.5 from the prior reading of 56. Wednesday saw that last month's Factory Orders fell by 1.5% after the previous month's gain of 1.3%.

What has all this news meant for the bond market this week? As measured by the Ten Year Treasury Note, volatility was minimal as yields spent Monday through Thursday between 1.90% and 1.96%. Prices have rallied, however following the Labor Report and 1.87% is the current level for that Benchmark issue.

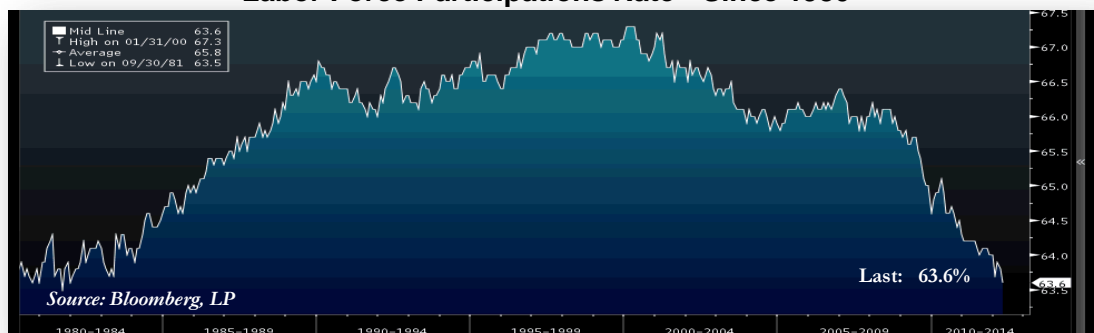
The calendar for economic news is light next week but the same cannot be said for the Treasury's auction calendar. Beginning on Tuesday, sales of "threes, tens, and thirties" will take place. The market will also be watching developments in the EU as finance ministers and the ECB continue to wrestle with finding a balanced policy direction that addresses the paradox of implementing austerity that won't stifle growth. Good luck with that.

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The Participation Rate is a measure of the proportion of the population in the Labor Force. As job seekers become discouraged, they are no longer counted as unemployed nor as being in the Labor Force; thus making it appear that labor conditions are improving as measured by the Unemployment Rate.

Labor Force Participations Rate - Since 1980



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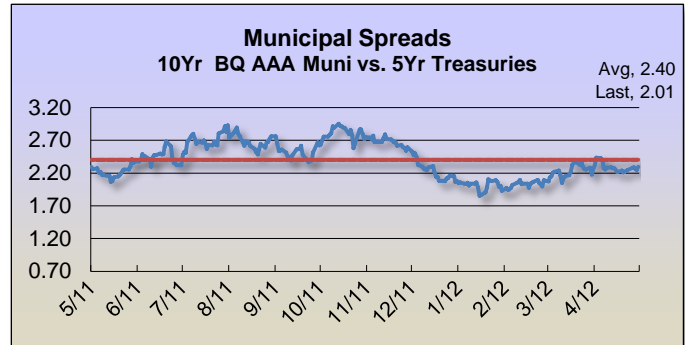
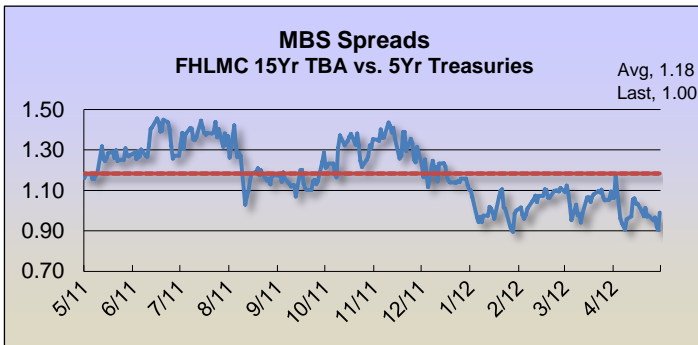
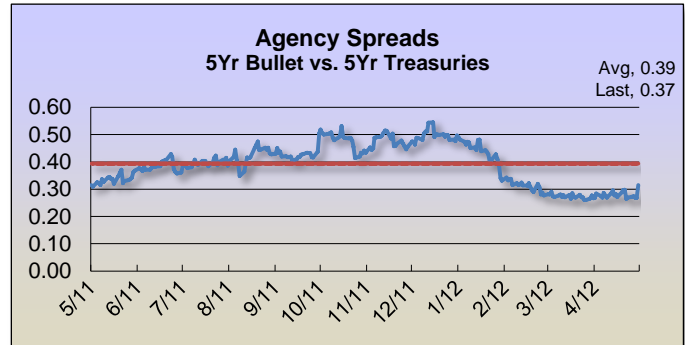
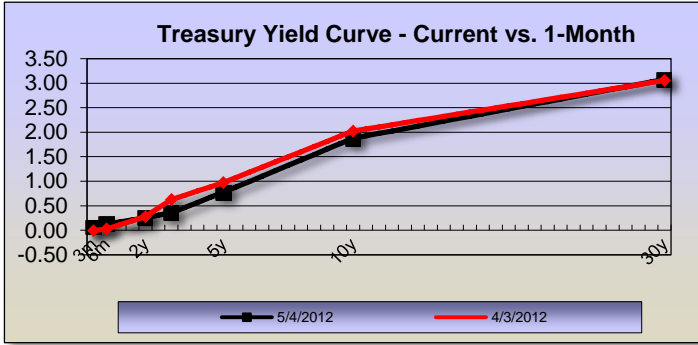
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Baker Market Update



May 4, 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	0.07	(0.02)	0.07	0.00	0.02	3mo	0.16					2Yr	-	-	-	-
6mo	0.13	(0.01)	0.14	0.03	0.06	6mo	0.21					3Yr	-	-	-	-
1yr	0.17	0.00	0.19	0.09	0.19	1yr	0.22					5Yr	-	-	1.10	1.11
2yr	0.25	(0.01)	0.34	0.22	0.59	2yr	0.31	0.54	0.73	0.74	0.60	7Yr	-	1.53	1.70	1.73
3yr	0.36	(0.02)	0.51	0.44	1.04	3yr	0.51	0.66	0.96	0.97	0.80	10Yr	-	2.22	2.33	2.34
5yr	0.78	(0.05)	1.04	0.88	1.94	5yr	1.06	1.07	1.48	1.50	1.44	June TBA MBS				
7yr	1.28	(0.07)	1.61	1.45	2.60	7yr	1.54	1.53	2.12	2.15	1.99	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.88	(0.06)	2.22	2.03	3.22	10yr	2.34	2.02	3.01	3.06	2.76	4.00	1.33	2.57y	2.02	3.2y
30yr	3.08	(0.05)	3.36	3.09	4.32	20yr	3.28		4.47	4.54	4.17	4.50	1.52	2.69y	1.51	2.59y
												5.00	1.43	2.46y	1.28	2.5y
												5.50	1.83	2.7y	1.82	2.81y
												6.00	3.08	2.86y	1.99	2.9y

* 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	--	0.24	0.25	0.21
3 Month LIBOR	0.47	--	0.47	0.44	0.27
6 Month LIBOR	0.73	--	0.73	0.63	0.43
1 Year LIBOR	1.05	--	1.05	0.95	0.76
6 Month CD	0.71	--	0.72	0.61	0.36
1 Year CMT	0.19	--	0.20	0.11	0.20
REPO O/N	0.18	--	0.18	0.03	0.00
REPO 1Wk	0.12	--	0.18	0.03	0.02
CoF National Med	1.16	--	1.20	1.34	1.53
11th District CoF	1.16	--	1.21	1.28	1.45

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.25	0.31	0.24	0.37
6mo	0.29	0.34	0.28	0.44
1yr	0.33	0.43	0.33	0.49
2yr	0.46	0.71	0.75	0.71
3yr	0.70	0.92	0.90	0.87
4yr	0.97	1.20	1.13	1.16
5yr	1.21	1.45	1.38	1.43
7yr	1.75	2.07	2.03	--
10yr	2.49	2.80	2.68	2.60
5yr Am	0.92		1.09	1.14
10yr Am	1.94		2.03	1.99

Fed Fund Futures	
Maturity	Rate
May-12	0.147
Jun-12	0.150
Jul-12	0.150
Aug-12	0.155
Sep-12	0.155
Oct-12	0.160
Nov-12	0.160
Dec-12	0.155
Jan-13	0.160
Feb-13	0.160
Mar-13	0.165

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Baker Market Update



May 4, 2012

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
04/30	Personal Income	MAR	0.30%	0.40%	0.20%	0.30%
04/30	Personal Spending	MAR	0.40%	0.30%	0.80%	0.90%
04/30	PCE Deflator (MoM)	MAR	0.30%	0.20%	0.30%	--
04/30	PCE Core (MoM)	MAR	0.2%	0.2%	0.1%	--
04/30	PCE Core (YoY)	MAR	2.0%	2.0%	1.9%	--
04/30	Chicago Purchasing Manager	APR	60.0	56.2	62.2	--
04/30	Dallas Fed Manf. Activity	APR	8.0	(3.4)	10.8	--
05/01	Construction Spending MoM	MAR	0.5%	0.1%	-1.1%	-1.4%
05/01	ISM Manufacturing	APR	53.0	54.8	53.4	--
05/01	ISM Prices Paid	APR	59.0	61.0	61.0	--
05/01	Total Vehicle Sales	APR	14.40M	14.38M	14.32M	--
05/01	Domestic Vehicle Sales	APR	11.10M	11.12M	11.09M	--
05/02	MBA Mortgage Applications	4/27	--	0.1%	-3.8%	--
05/02	ADP Employment Change	APR	170K	119K	209K	201K
05/02	ISM New York	APR	--	61.2	67.4	--
05/02	Factory Orders	MAR	-1.6%	-1.5%	4.3%	1.1%
05/03	Challenger Job Cuts YoY	APR	--	11.2%	-8.8%	--
05/03	Nonfarm Productivity	1Q P	-0.6%	-0.5%	0.9%	1.2%
05/03	Unit Labor Costs	1Q P	2.7%	2.0%	2.8%	2.7%
05/03	Initial Jobless Claims	4/28	379K	365K	388K	392K
05/03	Continuing Claims	4/21	3311K	3276K	3315K	3329K
05/03	ISM Non-Manf. Composite	APR	55.3	53.5	56.0	--
05/03	ICSC Chain Store Sales YoY	APR	--	0.6%	4.1%	--
05/04	Change in Nonfarm Payrolls	APR	160K	154K	120K	154K
05/04	Change in Private Payrolls	APR	165K	166K	124K	166K
05/04	Change in Manufact. Payrolls	APR	20K	41K	37K	41K
05/04	Unemployment Rate	APR	8.2%	--	8.2%	--
05/04	Avg Hourly Earning MOM All Emp	APR	0.2%	--	0.2%	--
05/04	Avg Hourly Earning YOY All Emp	APR	2.0%	2.0%	2.4%	2.0%
05/04	Avg Weekly Hours All Employees	APR	34.5	--	34.5	--
05/04	Change in Household Employment	APR	--	--	(31.0)	--
05/04	Underemployment Rate (U6)	APR	--	14.5%	14.5%	--
05/07	Consumer Credit	MAR	\$9.750B	--	\$8.735B	--
05/08	U.S. to Sell USD32 Bln 3-Year Notes					
05/09	Wholesale Inventories	MAR	0.6%	--	0.9%	--
05/09	U.S. to Sell USD24 Bln 10-Year Notes					
05/10	Import Price Index (MoM)	APR	-0.2%	--	1.3%	--
05/10	Import Price Index (YoY)	APR	0.8%	--	3.4%	--
05/10	Trade Balance	MAR	-\$50.0B	--	-\$46.0B	--
05/10	Initial Jobless Claims	5/5	370K	--	365K	--
05/10	Continuing Claims	4/28	3280K	--	3276K	--
05/10	U.S. to Sell USD16 Bln 30-Year Bonds					
05/11	Producer Price Index (MoM)	APR	0.0%	--	0.0%	--
05/11	PPI Ex Food & Energy (MoM)	APR	0.2%	--	0.3%	--
05/11	Producer Price Index (YoY)	APR	2.10%	--	2.80%	--
05/11	PPI Ex Food & Energy (YoY)	APR	2.80%	--	2.90%	--
05/11	U. of Michigan Confidence	MAY P	76.4	--	76.4	--

MBS Prepayments ⁴					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	26.0	25.9	22.5	20.5	18.0
FH/FN 15y	25.4	23.3	22.2	19.8	17.1
GN 15y	18.5	18.5	15.6	16.8	16.2
FH/FN 20y	26.2	26.8	26.4	22.7	18.2
FH/FN 30y	28.0	27.2	28.6	25.9	22.1
GN 30y	20.5	21.1	22.9	23.3	19.5
PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	424	455	401	357	314
FH/FN 15y	422	449	401	355	312
GN 15y	290	360	358	336	272
FH/FN 20y	398	442	417	375	385
FH/FN 30y	534	540	483	474	457
GN 30y	458	399	481	495	481

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	79.83	(0.44)	82.46	78.24	80.61
Euro	1.31	(0.02)	1.31	1.38	1.48
Dollar Index	79.44	0.73	79.78	76.96	73.03
Major Stock Indices					
Dow Jones	13,049.9	(178.5)	13,074.8	11,983.2	12,723.6
S&P 500	1,371.2	(32.2)	1,399.0	1,253.2	1,347.3
NASDAQ	2,964.3	(104.9)	3,068.1	2,686.2	2,828.2
Commodities					
Gold	1,636.30	(28.50)	1,614.10	1,762.10	1,523.40
Crude Oil	98.24	(6.69)	102.03	93.85	109.47
Natural Gas	2.30	0.11	2.27	3.94	5.01
Wheat	604.5	(45.5)	649.8	701.0	892.8
Corn	609.25	(16.25)	650.75	678.25	691.00

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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