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“Your call is very important to us; please hold”. Who among us hasn’t experienced this conflicted statement of feigned concern and poorly disguised indifference? Unspoken in that simple declarative is the implication that whatever resolution we seek is just going to have to wait a while longer. How much longer? Please hold. And so it is with the American economy and financial markets. We have all been put on hold while we wait for at least some degree of clarity concerning such weighty issues as tax legislation, governmental spending, regulatory ambiguity, and, of course, there’s that election thing.

The behavior of the bond market this past week reflects the haphazard ramblings of someone lacking direction and who’s path is determined by random interactions with external influences. While not all who wander are lost, some surely are. As the week began with the Benchmark Ten Year Treasury yielding around 1.80% after last week’s sell-off, a light but steady stream of less-than-inspiring economic news helped bring that yield down to the 1.65% level market participants are seeing this morning. Tuesday’s release of the last FOMC meeting’s minutes showed, to the surprise of no one, that the Committee stands ready to provide further accommodation. It appears, however, that the efficacy of such action is not perceived as being equally significant by all members of the committee. So, can we expect another round of Quantitative Easing? Please hold.

Sales of Existing Homes rose 2.3% for the month thus reversing, in part, the previous month’s 5.4% decline. Even though this month’s increase seems like good news, it was still less than the 3.2% rise the market was expecting. For New Homes, those sales last month rose by 3.6% which, while positive, was still a bit pale relative to the 4.3% anticipated increase. Good news for Home Prices came out on Thursday as the Federal Housing Finance Agency reported a .7% increase in the median price of homes last month. Has the housing market finally begun to turn around? Please hold.

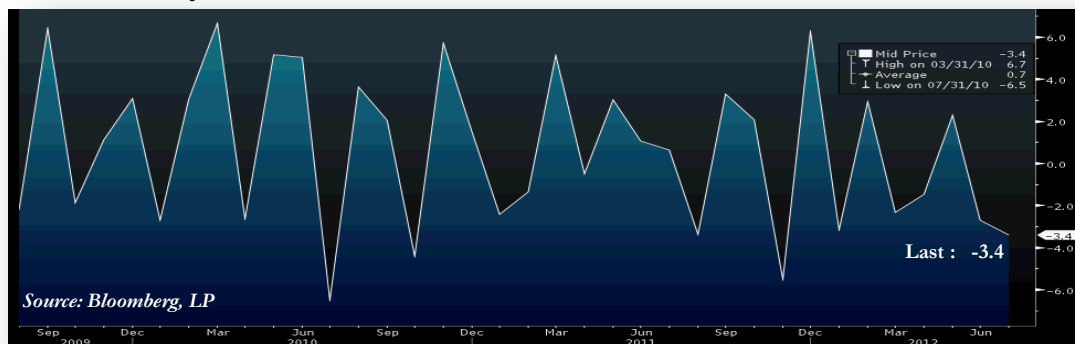
This morning’s release of a 4.2% increase in Durable Goods Orders seemed, on the surface, to be good news. Upon closer inspection, though, we learned that taking out defense and aircraft related orders reverses that number to a 3.4% decline.

If those looking for some certainty are looking for it in Europe, they’re looking in the wrong place. The status of rescue operations for Greece, Spain, and Italy seems to change daily as that dysfunctional family known as the European Union tries to avoid becoming this season’s latest reality show. Will the conditional requirements for austerity be relaxed so that rescue operations can continue? Don’t worry, someone will be with you shortly.

For next week, while we’re waiting for that clarity to arrive, the market will be reacting to new measurements of Consumer Confidence, the 2<sup>nd</sup> estimate of Q2 GDP, the release of the Fed’s Beige Book, and Factory Orders. Please don’t hang up, that will only further delay your call.

This morning’s report of a 3.4% decline in Non-defense, Ex-aircraft orders could be signaling an unwelcome slowdown in manufacturing activity.

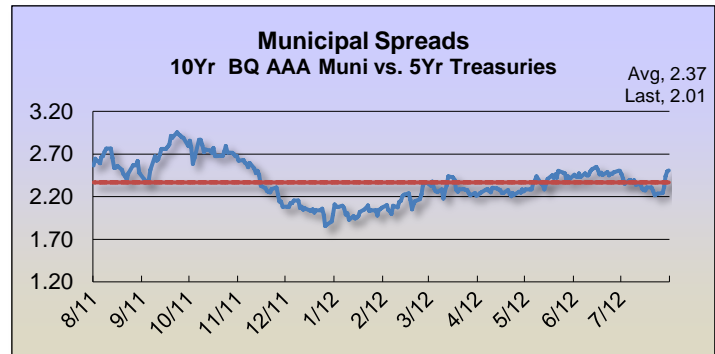
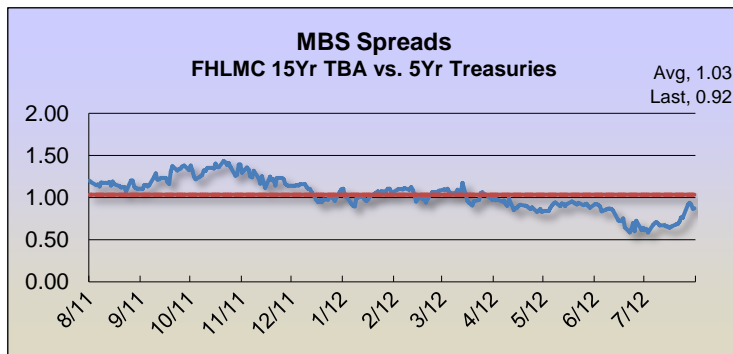
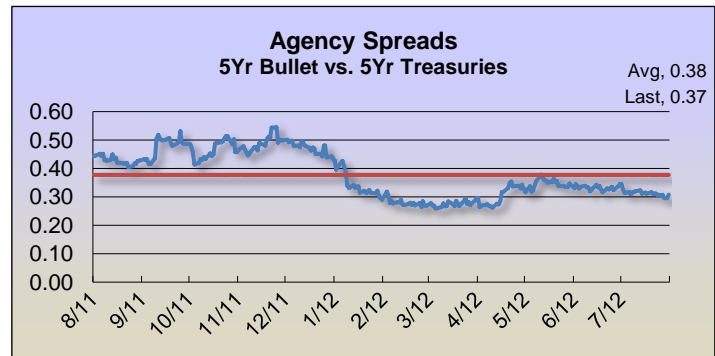
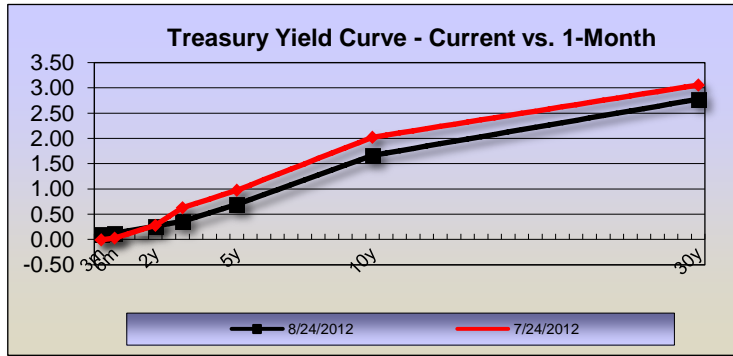
**Capital Goods Orders, Non-Defense-Ex Air - Last 3 Years**



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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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.10	0.03	0.10	0.09	-0.01	3mo	0.14					2Yr	-	-	-	-
6mo	0.13	(0.01)	0.14	0.13	0.02	6mo	0.16					3Yr	-	-	-	-
1yr	0.18	(0.00)	0.16	0.16	0.09	1yr	0.20				0.60	5Yr	-	0.84	0.91	0.91
2yr	0.26	(0.02)	0.22	0.31	0.23	2yr	0.29	0.44	0.42	0.53	0.68	7Yr	-	1.39	1.46	1.46
3yr	0.36	(0.05)	0.28	0.50	0.49	3yr	0.40	0.53	0.73	0.84	1.15	10Yr	-	1.91	2.05	2.03
5yr	0.69	(0.10)	0.54	0.89	1.02	5yr	0.83	0.89	1.18	1.30	1.40	September TBA MBS				
7yr	1.11	(0.14)	0.88	1.40	1.61	7yr	1.33	1.30	2.01	2.15	1.80	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.67	(0.15)	1.39	1.98	2.30	10yr	1.86	1.77	2.77	2.92	2.20	4.00	1.00	2.46y	1.87	3.6y
30yr	2.78	(0.15)	2.45	3.10	3.65	20yr	2.80		4.06	4.23	3.65	4.50	1.35	2.67y	1.00	2.45y
												5.00	1.32	2.46y	1.24	2.55y
												5.50	1.92	2.61y	1.93	2.94y
												6.00	3.39	2.78y	2.20	2.94y

\* 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	0.23	--	0.24	0.24	0.22
3 Month LIBOR	0.42	--	0.45	0.49	0.31
6 Month LIBOR	0.71	--	0.73	0.75	0.48
1 Year LIBOR	1.04	--	1.06	1.07	0.79
6 Month CD	0.50	--	0.50	0.73	0.49
1 Year CMT	0.19	--	0.17	0.17	0.10
REPO O/N	0.20	--	0.17	0.09	0.03
REPO 1Wk	0.13	--	0.13	0.08	0.03
CoF National Med	1.16	--	1.20	1.34	1.53
11th District CoF	1.12	--	1.12	1.22	1.34

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.26	0.31	0.23	0.37
6mo	0.29	0.34	0.32	0.44
1yr	0.34	0.43	0.48	0.49
2yr	0.41	0.65	0.70	0.63
3yr	0.64	0.80	0.81	0.77
4yr	0.87	1.04	0.99	1.01
5yr	1.07	1.25	1.22	1.22
7yr	1.55	1.82	1.82	--
10yr	2.17	2.43	2.45	2.22
5yr Am	0.82		0.97	1.00
10yr Am	1.66		1.83	1.74

Fed Fund Futures	
Maturity	Rate
Aug-12	0.135
Sep-12	0.130
Oct-12	0.130
Nov-12	0.130
Dec-12	0.125
Jan-13	0.125
Feb-13	0.130
Mar-13	0.130
Apr-13	0.130
May-13	0.130
Jun-13	0.130

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/20	Chicago Fed Nat Activity Index	Jul	-5.0%	-13.0%	-15.0%	-34.0%
08/22	MBA Mortgage Applications	8/17	--	-7.4%	-4.5%	--
08/22	Existing Home Sales	Jul	4.51M	4.47M	4.37M	--
08/23	Initial Jobless Claims	8/18	365K	372K	366K	368K
08/23	Continuing Claims	8/11	3300K	3317K	3305K	3313K
08/23	Markit US PMI Preliminary	Aug	51.5	51.9	51.4	--
08/23	Bloomberg Consumer Comfort	8/19	--	(47.4)	(44.4)	--
08/23	New Home Sales	Jul	365K	372K	350K	359K
08/23	House Price Index MoM	Jun	0.6%	0.7%	0.8%	0.6%
08/23	U.S. Sells USD14 Bln 5-Year TIPS Reopening; High Yld					-1.286%
08/24	Durable Goods Orders	Jul	2.5%	4.2%	4.6%	1.6%
08/24	Durables Ex Transportation	Jul	0.5%	-0.4%	-1.1%	-2.2%
08/24	Cap Goods Orders Nondef Ex Air	Jul	-0.2%	-3.4%	-1.4%	-2.7%
08/24	Cap Goods Ship Nondef Ex Air	Jul	-0.1%	0.0%	1.2%	1.5%
08/27	Dallas Fed Manf. Activity	Aug	(8.0)	--	(13.2)	--
08/28	S&P/CS 20 City MoM% SA	Jun	0.3%	--	0.9%	--
08/28	S&P/CS Composite-20 YoY	Jun	-0.2%	--	-0.7%	--
08/28	S&P/Case-Shiller US HPI YOY%	2Q	--	--	-1.9%	--
08/28	S&P/Case-Shiller Home Price Ind	Jun	--	--	139.0	--
08/28	S&P/Case-Shiller US HPI	2Q	--	--	123.3	--
08/28	Consumer Confidence	Aug	66.0	--	65.9	--
08/28	Richmond Fed Manufact. Index	Aug	(11.0)	--	(17.0)	--
08/28	U.S. to Sell USD35 Bln 2-Year Notes					
08/29	MBA Mortgage Applications	8/24	--	--	-7.4%	--
08/29	GDP QoQ (Annualized)	2Q S	0.0	--	0.0	--
08/29	Personal Consumption	2Q S	1.6%	--	1.5%	--
08/29	GDP Price Index	2Q S	0.0	--	0.0	--
08/29	Core PCE QoQ	2Q S	1.8%	--	1.8%	--
08/29	Pending Home Sales MoM	Jul	1.0%	--	-1.4%	--
08/29	U.S. to Sell USD35 Bln 5-Year Notes					
08/29	Fed's Beige Book					
08/30	Personal Income	Jul	0.3%	--	0.5%	--
08/30	Personal Spending	Jul	0.5%	--	0.0%	--
08/30	PCE Deflator (MoM)	Jul	0.1%	--	0.1%	--
08/30	PCE Deflator (YoY)	Jul	1.4%	--	1.5%	--
08/30	PCE Core (MoM)	Jul	0.1%	--	0.2%	--
08/30	PCE Core (YoY)	Jul	1.7%	--	1.8%	--
08/30	Initial Jobless Claims	8/25	370K	--	372K	--
08/30	Continuing Claims	8/18	3307K	--	3317K	--
08/30	Bloomberg Consumer Comfort	8/26	--	--	(47.4)	--
08/30	Kansas City Fed Manf. Activity	Aug	--	--	5.0	--
08/30	U.S. to Sell USD29 Bln 7-Year Notes					
08/30	ICSC Chain Store Sales YoY	Aug	--	--	1.9%	--
08/31	Chicago Purchasing Manager	Aug	53.5	--	53.7	--
08/31	U. of Michigan Confidence	Aug F	73.6	--	73.6	--
08/31	Factory Orders	Jul	1.2%	--	-0.5%	--
08/31	NAPM-Milwaukee	Aug	--	--	46.7	--

MBS Prepayments <sup>4</sup>					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	26.0	24.6	21.2	18.4	11.0
FH/FN 15y	24.5	22.7	22.6	20.8	17.4
GN 15y	19.6	19.6	16.6	17.3	15.3
FH/FN 20y	25.4	27.1	26.9	25.9	20.4
FH/FN 30y	27.6	30.1	35.2	34.4	28.7
GN 30y	23.8	23.5	25.9	22.3	17.9

PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	423	453	415	368	367
FH/FN 15y	415	448	414	367	366
GN 15y	309	369	361	369	286
FH/FN 20y	434	495	463	408	413
FH/FN 30y	556	534	465	464	437
GN 30y	368	444	499	489	466

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	78.56	(1.00)	78.18	81.20	76.98
Euro	1.25	0.02	1.21	1.34	1.44
Dollar Index	81.63	(0.97)	84.01	78.35	74.01
<b>Major Stock Indices</b>					
Dow Jones	13,057.6	(217.6)	12,617.3	12,983.0	11,320.7
S&P 500	1,400.6	(17.6)	1,338.3	1,365.7	1,177.6
NASDAQ	3,050.8	(25.8)	2,863.0	2,963.8	2,467.7
<b>Commodities</b>					
Gold	1,670.20	50.80	1,580.80	1,787.20	1,768.60
Crude Oil	96.46	0.14	88.78	110.33	89.81
Natural Gas	2.81	0.09	3.18	3.02	4.38
Wheat	903.3	8.8	888.3	688.0	853.0
Corn	819.75	12.50	778.25	558.00	654.75

Notes: <sup>1</sup> Call Agy = Maturity at left w/ a 1-Year Call at Par; <sup>2</sup> Muni TEY (34% Fed, 1.0% COF); <sup>3</sup> S-Corp TEY Muni (35%, no TEFERA); <sup>4</sup> MBS Prepayments are provided by Bloomberg  
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