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Whew! That was a close one! The bond market, along with the rest of us, is greatly relieved that we apparently dodged a Mayan bullet. Bullet, spear, arrow; whatever it was, we dodged it. It remains unclear as to whether or not the Mayans had a "Plan B". Unfortunately, the same cannot be said about the dodgy business of Federal budget legislation.

Earlier this week, bond prices moved up as the odds of a Fiscal Cliff launch (now a proper noun), appeared to be moving down. Hints of a solution to the bicameral impasse pushed the yield on the Treasury's Benchmark Ten Year up to 1.82% on Tuesday only to see that fall to this morning's 1.75% as jitters have resurfaced in both credit and equity markets.

As the *telenovela* in Washington D.C. continues to play itself out, one might think there was no other news being made. It has thus been largely overlooked that the U.S. Department of Commerce has discovered the true key to economic growth - revised statistics. The Bureau of Economic Analysis announced on Thursday that Q3 GDP is now up to 3.1% after last month being estimated to be 2.7%. That revision followed the original October estimate of just 2%. A few more revisions like that, and we'll have this economy humming!

On Monday, we learned that the manufacturing outlook could be brighter as the Empire State Manufacturing Index fell 8.1% last month. An early step off the cliff? Also slipping into negative growth territory was Housing Starts. November's 3% decline mostly erased the prior month's 3.6% surge. Existing Home Sales managed a 5.9% increase for the month, however. Another bit of positive news came out of the Philadelphia Fed as its Outlook Survey unexpectedly rose to a positive 8.1 value after last month's decline to -10.7. Cliff? What Cliff?

While some might think that our fears are inflated, it was made clear this morning that prices are not. The core (ex-food & energy) Personal Consumption Expenditures Index (PCE) fell by .1 to 1.5% on a year-over-year basis. Personal Income rose by .6% for the month. Orders for all Durable Goods rose by .7% last month with non-defense, ex-air, Capital Goods orders rising by a much higher than expected 2.7%. And finally, as Bowl season (forget the Cliff) really gets underway, the University of Michigan Index of Consumer Sentiment dropped to 72.9 from 74.5. Obviously, a large Mayan contingent was included in this month's survey sample.

From all of us at the Baker Group to all ten of you who read this newsletter, Merry Christmas and Happy New Year!

Personal income, the missing link of this recovery, experienced an unexpectedly high jump in November.

U.S. Personal Income (MoM) - Since 2000



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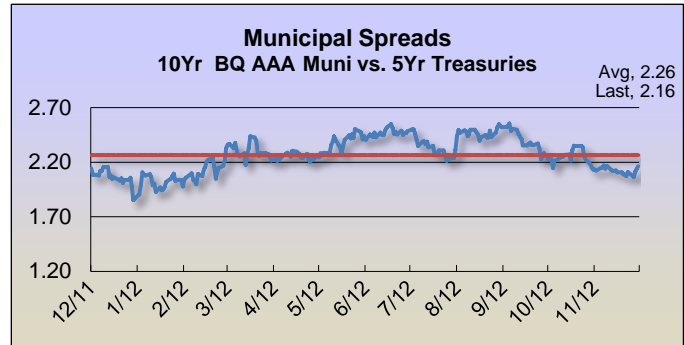
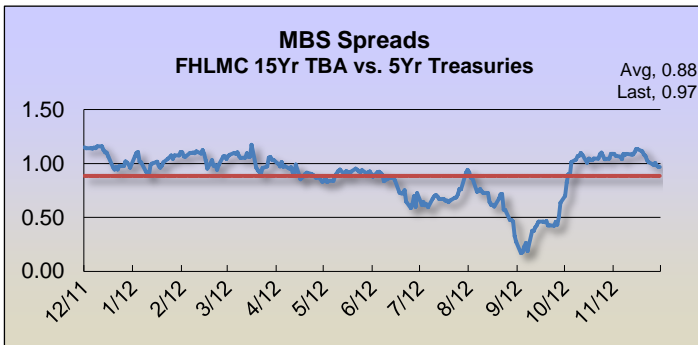
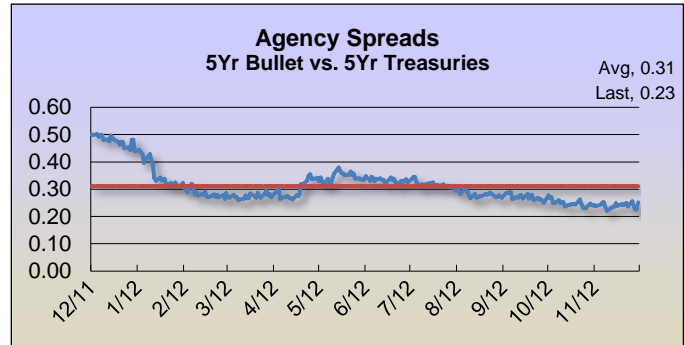
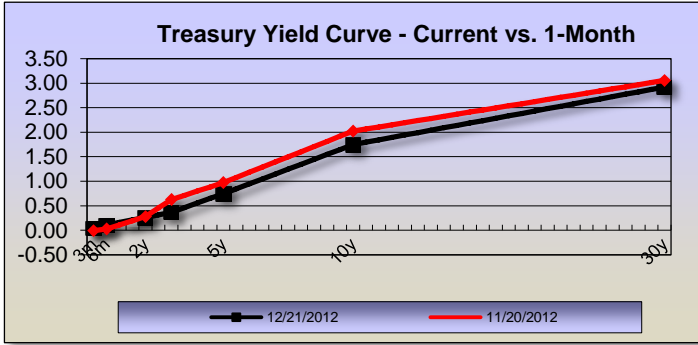
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Baker Market Update



December 21, 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	0.05	0.02	0.09	0.08	0.00	3mo	0.07					2Yr	0.24	0.24	0.25	-
6mo	0.11	0.02	0.14	0.14	0.03	6mo	0.10					3Yr	0.36	0.41	0.43	0.44
1yr	0.14	0.01	0.18	0.18	0.11	1yr	0.18					5Yr	0.82	0.88	0.90	0.89
2yr	0.26	0.03	0.27	0.30	0.27	2yr	0.30	0.40	0.62	0.64	0.43	7Yr	1.33	1.42	1.44	1.42
3yr	0.37	0.04	0.36	0.44	0.49	3yr	0.45	0.49	0.75	0.77	0.77	10Yr	1.91	2.02	2.06	2.03
5yr	0.75	0.06	0.68	0.72	0.92	5yr	0.88	0.86	1.53	1.58	1.24	January TBA MBS				
7yr	1.20	0.07	1.09	1.10	1.41	7yr	1.35	1.29	2.09	2.15	1.67	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	1.75	0.05	1.68	1.62	1.97	10yr	1.93	1.80	3.00	3.08	2.27	4.00	1.09	2.55y	1.68	3.31y
30yr	2.92	0.06	2.82	2.69	3.00	20yr	3.00		3.94	4.08	3.18	4.50	1.45	2.67y	1.45	2.79y
												5.00	1.59	2.6y	1.41	2.49y
												5.50	2.60	2.82y	1.83	2.56y
												6.00	3.92	2.87y	2.12	2.63y

* 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	0.21	--	0.21	0.25	0.29
3 Month LIBOR	0.31	--	0.31	0.47	0.57
6 Month LIBOR	0.51	--	0.53	0.74	0.80
1 Year LIBOR	0.84	--	0.86	1.07	1.12
6 Month CD	0.50	0.12	0.45	0.53	0.78
1 Year CMT	0.15	--	0.16	0.20	0.12
REPO O/N	0.21	--	0.21	0.16	0.00
REPO 1Wk	0.19	--	0.19	0.15	0.00
CoF National Med	1.16	--	1.20	1.34	1.53
11th District CoF	1.01	--	1.04	1.14	1.22

FHLB Fixed Advance Rates				
Maturity	Chicago	Boston	Dallas	Topeka
3mo	0.21	0.35	0.18	0.35
6mo	0.27	0.37	0.29	0.42
1yr	0.29	0.39	0.44	0.46
2yr	0.43	0.67	0.75	0.64
3yr	0.66	0.80	0.86	0.77
4yr	0.85	1.01	1.03	0.98
5yr	1.06	1.22	1.25	1.20
7yr	1.56	1.81	1.79	--
10yr	2.22	2.49	2.41	2.29
5yr Am	0.73		1.01	0.98
10yr Am	1.49		1.81	1.74

Fed Fund Futures	
Maturity	Rate
Dec-12	0.165
Jan-13	0.160
Feb-13	0.150
Mar-13	0.145
Apr-13	0.140
May-13	0.140
Jun-13	0.140
Jul-13	0.140
Aug-13	0.140
Sep-13	0.145
Oct-13	0.145

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Baker Market Update



December 21, 2012

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
12/17	Empire Manufacturing	Dec	(1.0)	(8.1)	(5.2)	--
12/17	Total Net TIC Flows	Oct	--	-\$56.7B	\$4.7B	\$4.3B
12/17	Net Long-term TIC Flows	Oct	\$25.0B	\$1.3B	\$3.3B	\$3.2B
12/17	U.S. Sells USD35 Bln 2-Year Notes; High Yld 0.245%					
12/18	Current Account Balance	3Q	-\$103.0B	-\$107.5B	-\$117.4B	-\$118.1B
12/18	U.S. Sells USD35 Bln 5-Year Notes; High Yld 0.769%					
12/19	MBA Mortgage Applications	12/14	--	-12.3%	6.2%	--
12/19	Housing Starts	Nov	872K	861K	894K	888K
12/19	Housing Starts MOM%	Nov	-2.5%	-3.0%	3.6%	5.3%
12/19	Building Permits	Nov	875K	899K	866K	868K
12/19	Building Permits MOM%	Nov	0.8%	3.6%	-2.7%	-2.5%
12/19	U.S. Sells USD29 Bln 7-Year Notes; High Yld 1.233%					
12/20	GDP QoQ (Annualized)	3Q T	2.8%	3.1%	2.7%	--
12/20	Personal Consumption	3Q T	1.4%	1.6%	1.4%	--
12/20	GDP Price Index	3Q T	2.7%	2.7%	2.7%	--
12/20	Core PCE QoQ	3Q T	1.1%	1.1%	1.1%	--
12/20	Initial Jobless Claims	12/15	360K	361K	343K	344K
12/20	Continuing Claims	12/8	3200K	3225K	3198K	3213K
12/20	Philadelphia Fed.	Dec	(3.0)	8.1	(10.7)	--
12/20	Existing Home Sales	Nov	4.90M	5.04M	4.79M	4.76M
12/20	Existing Home Sales MoM	Nov	2.3%	5.9%	2.1%	1.5%
12/20	Leading Indicators	Nov	-0.2%	-0.2%	0.2%	0.3%
12/20	House Price Index MoM	Oct	0.3%	0.5%	0.2%	0.0%
12/20	U.S. Sells 5-Year USD14 Bln TIPS Reopening; High Yld -1.496%					
12/21	Chicago Fed Nat Activity Index	Nov	--	--	--	--
12/21	Personal Income	Nov	0.3%	0.6%	0.0%	0.1%
12/21	Personal Spending	Nov	0.4%	0.4%	-0.2%	-0.1%
12/21	PCE Deflator (MoM)	Nov	-0.1%	-0.2%	0.1%	--
12/21	PCE Deflator (YoY)	Nov	1.50%	1.40%	1.70%	--
12/21	PCE Core (MoM)	Nov	0.1%	0.0%	0.1%	--
12/21	PCE Core (YoY)	Nov	1.6%	1.5%	1.6%	--
12/21	Durable Goods Orders	Nov	0.3%	0.7%	0.0%	1.1%
12/21	Durables Ex Transportation	Nov	-0.2%	1.6%	1.5%	1.9%
12/21	Cap Goods Orders Nondef Ex Air	Nov	0.0%	2.7%	1.7%	3.2%
12/21	Cap Goods Ship Nondef Ex Air	Nov	0.6%	1.8%	-0.4%	0.6%
12/21	U. of Michigan Confidence	Dec F	75.0	72.9	74.5	--
12/21	Kansas City Fed Manf. Activity	Dec	(5.0)	(2.0)	(6.0)	--
12/26	S&P/CS 20 City MoM% SA	Oct	0.4%	--	0.4%	--
12/26	S&P/CS Composite-20 YoY	Oct	4.0%	--	3.0%	--
12/26	S&P/CaseShiller Home Price Ind	Oct	145.9	--	146.2	--
12/26	Richmond Fed Manufact. Index	Dec	6.0	--	9.0	--
12/27	Initial Jobless Claims	12/22	365K	--	361K	--
12/27	Continuing Claims	12/15	3220K	--	3125K	--
12/27	Consumer Confidence	Dec	70.0	--	73.7	--
12/27	New Home Sales	Nov	380K	--	368K	--
12/28	Chicago Purchasing Manager	Dec	51.0	--	50.4	--
12/28	Pending Home Sales MoM	Nov	1.0%	--	5.2%	--

MBS Prepayments ⁴					
3-Month CPR					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	27.3	27.9	21.1	19.6	13.3
FH/FN 15y	27.5	24.3	23.3	21.2	18.1
GN 15y	22.0	22.0	18.2	17.2	14.9
FH/FN 20y	30.5	30.4	29.9	27.0	21.1
FH/FN 30y	33.8	33.2	37.2	35.2	29.4
GN 30y	30.6	31.3	33.2	28.8	21.4

PSA Projections					
Type	4.5	5.0	5.5	6.0	6.5
FN 10y	420	417	363	344	331
FH/FN 15y	426	419	372	341	333
GN 15y	346	373	386	352	249
FH/FN 20y	378	479	439	384	368
FH/FN 30y	475	546	525	515	493
GN 30y	521	477	477	500	472

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	84.15	0.63	82.52	80.28	78.06
Euro	1.32	--	1.28	1.25	1.30
Dollar Index	79.64	0.06	80.93	82.29	80.02
Major Stock Indices					
Dow Jones	13,148	13	12,837	12,574	12,108
S&P 500	1,424.4	10.8	1,391.0	1,325.5	1,243.7
NASDAQ	3,006.7	35.3	2,926.6	2,859.1	2,578.0
Commodities					
Gold	1,655.00	(42.00)	1,730.60	1,571.70	1,627.60
Crude Oil	88.42	1.17	87.98	80.63	97.00
Natural Gas	3.46	0.14	4.02	3.39	4.05
Wheat	795.0	(19.0)	859.8	718.3	706.5
Corn	699.8	-31.0	745.3	561.0	582.8

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