

Federal Open Market Committee (Full Announcement Text)

Information received since the Federal Open Market Committee met in July suggests that economic activity has been expanding at a moderate pace. Some indicators of labor market conditions have shown further improvement in recent months, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen further and fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall, but the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.

Taking into account the extent of federal fiscal retrenchment, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program a year ago as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; James Bullard; Charles L. Evans; Jerome H. Powell; Eric S. Rosengren; Jeremy C. Stein; Daniel K. Tarullo; and Janet L. Yellen. Voting against the action was Esther L. George, who was concerned that the continued high level of monetary accommodation increased the risks of future economic and financial imbalances and, over time, could cause an increase in long-term inflation expectations.

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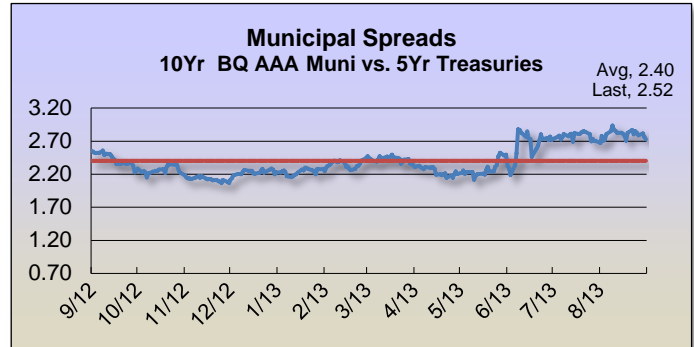
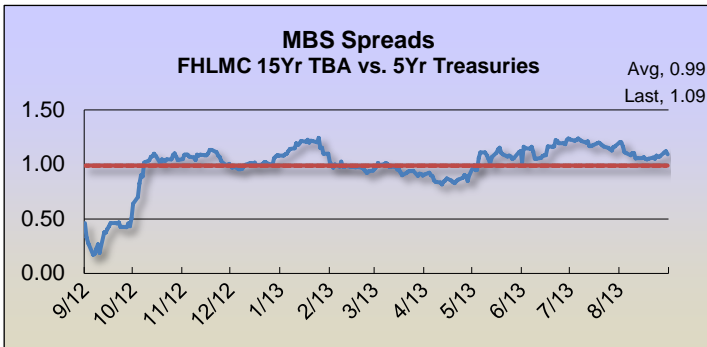
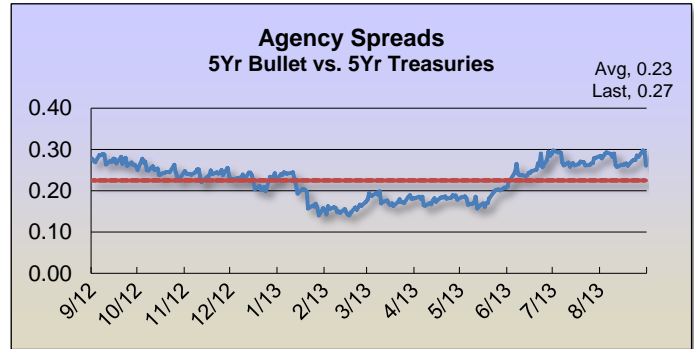
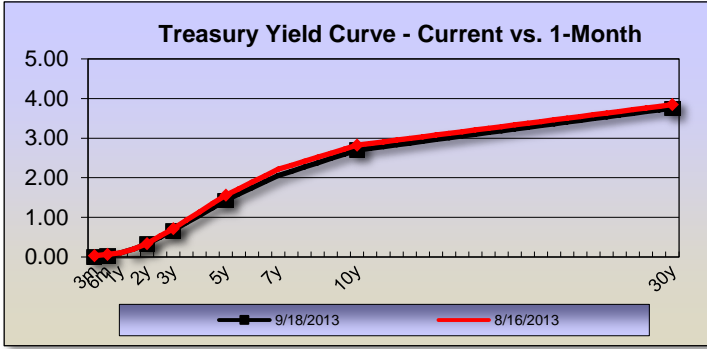
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Projections
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Baker Market Update



September 18, 2013



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	0.01	(0.01)	0.04	0.07	0.10	3mo	0.03				2Yr	0.41	0.42	0.41	-	
6mo	0.03	(0.00)	0.07	0.10	0.13	6mo	0.06				3Yr	0.87	0.88	0.87	0.83	
1yr	0.11	(0.00)	0.11	0.13	0.17	1yr	0.10		0.45	0.50	0.40	5Yr	1.81	1.86	1.87	1.76
2yr	0.33	(0.11)	0.34	0.24	0.26	2yr	0.36	0.26	0.67	0.76	0.65	7Yr	2.53	2.53	2.54	2.47
3yr	0.67	(0.20)	0.72	0.38	0.35	3yr	0.75	0.47	1.19	1.35	1.05	10Yr	3.19	3.21	3.21	3.16
5yr	1.44	(0.27)	1.56	0.81	0.70	5yr	1.63	0.85	2.08	2.36	2.00	October TBA MBS				
7yr	2.06	(0.27)	2.22	1.31	1.19	7yr	2.48	1.62	2.98	3.38	2.75	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.70	(0.21)	2.83	1.96	1.81	10yr	3.28	2.21	3.94	4.47	3.85	2.50	2.51	5.6y	3.52	10.0y
30yr	3.76	(0.10)	3.85	3.18	3.01	20yr	4.50		6.00	6.62	5.00	3.00	2.27	4.7y	3.42	9.5y
												3.50	2.03	4.1y	3.37	8.9y
												4.00	2.06	3.7y	3.25	6.9y
												4.50	2.56	3.7y	3.05	5.2y
												5.00	2.50	2.9y	2.54	3.8y

* 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	0.18	--	0.18	0.20	0.22
3 Month LIBOR	0.25	--	0.26	0.28	0.38
6 Month LIBOR	0.38	--	0.39	0.45	0.66
1 Year LIBOR	0.65	--	0.67	0.73	0.99
6 Month CD	0.34	--	0.30	0.37	0.44
1 Year CMT	0.12	--	0.13	0.14	0.18
REPO O/N	0.03	--	0.05	0.12	0.24
REPO 1Wk	0.05	--	0.06	0.11	0.18
CoF National Med	1.16	--	1.20	1.34	1.53
11th District CoF	0.95	--	0.95	0.96	1.09

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	0.16	0.33	0.14	0.30	Sep-13	0.082
6mo	0.19	0.34	0.15	0.34	Oct-13	0.085
1yr	0.32	0.38	0.28	0.44	Nov-13	0.100
2yr	0.59	0.81	0.86	0.79	Dec-13	0.100
3yr	1.12	1.29	1.28	1.26	Jan-14	0.105
4yr	1.65	1.83	1.76	1.80	Feb-14	0.110
5yr	2.06	2.26	2.21	2.25	Mar-14	0.115
7yr	2.90	3.18	3.03	--	Apr-14	0.120
10yr	3.70	3.96	3.79	3.80	May-14	0.130
5yr Am	1.36		1.64	1.68	Jun-14	0.140
10yr Am	2.75		2.97	2.98	Jul-14	0.155

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
09/16	Empire Manufacturing	Sep	910.0%	629.0%	824.0%	--
09/16	Industrial Production MoM	Aug	0.50%	0.40%	0.00%	--
09/16	Capacity Utilization	Aug	77.9%	77.8%	77.6%	--
09/16	Manufacturing (SIC) Production	Aug	0.5%	0.7%	-0.4%	-0.4%
09/17	CPI MoM	Aug	0.2%	0.1%	0.2%	--
09/17	CPI Ex Food and Energy MoM	Aug	0.2%	0.1%	0.2%	--
09/17	CPI YoY	Aug	1.6%	1.5%	2.0%	--
09/17	CPI Ex Food and Energy YoY	Aug	1.8%	1.8%	1.7%	--
09/17	CPI Core Index SA	Aug	234.3	234.3	234.0	--
09/17	CPI Index NSA	Aug	234.0	233.9	233.6	--
09/17	Total Net TIC Flows	Jul	--	\$56.7B	-\$19.0B	-\$19.7B
09/17	Net Long-term TIC Flows	Jul	-\$15.0B	\$31.1B	-\$66.9B	-\$67.0B
09/18	MBA Mortgage Applications	9/13	--	11.2%	-13.5%	--
09/17	Housing Starts	Aug	917K	891K	896K	883K
09/18	Building Permits	Aug	950K	918K	943K	954K
09/18	FOMC Rate Decision	9/18	0.25%	0.25%	0.25%	--
09/18	Fed Pace of MBS Purchases	Sep	40.0	40.0	40.0	--
09/18	Fed Pace of Treasury Pur	Sep	40.0	45.0	45.0	--
09/18	Initial Jobless Claims	9/14	330K	--	292K	--
09/18	Continuing Claims	9/7	2900K	--	2871K	--
09/19	Current Account Balance	2Q	-\$97.0B	--	-\$106.1B	--
09/19	Philadelphia Fed Business Outlook	Sep	10.3	--	9.3	--
09/19	Existing Home Sales	Aug	5.25M	--	5.39M	--
09/19	Leading Index	Aug	0.6%	--	0.6%	--
09/19	S&P/CS 20 City MoM SA	Jul	0.8%	--	0.9%	--
09/19	S&P/CS Composite-20 YoY	Jul	12.6%	--	12.1%	--
09/24	House Price Index MoM	Jul	0.9%	--	0.7%	--
09/24	Consumer Confidence Index	Sep	80.4	--	81.5	--
09/24	U.S. to Sell 2-Year Notes					
09/24	Durable Goods Orders	Aug	0.1%	--	-7.3%	-7.4%
09/24	Durables Ex Transportation	Aug	1.0%	--	-0.6%	-0.8%
09/25	Cap Goods Orders Nondef Ex Air	Aug	1.2%	--	-3.3%	-4.0%
09/25	New Home Sales	Aug	425K	--	394K	--
09/25	U.S. to Sell 5-Year Notes					
09/25	GDP Annualized QoQ	2Q T	2.7%	--	2.5%	--
09/25	Personal Consumption	2Q T	--	--	1.8%	--
09/26	GDP Price Index	2Q T	0.8%	--	0.8%	--
09/26	Core PCE QoQ	2Q T	--	--	0.8%	--
09/26	Pending Home Sales MoM	Aug	-1.0%	--	-1.3%	--
09/26	U.S. to Sell 7-Year Notes					
09/26	Personal Income	Aug	0.4%	--	0.1%	--
09/26	Personal Spending	Aug	0.3%	--	0.1%	--
09/27	PCE Deflator MoM	Aug	0.1%	--	0.1%	--
09/27	PCE Deflator YoY	Aug	--	--	1.4%	--
09/27	PCE Core MoM	Aug	0.1%	--	0.1%	--
09/27	PCE Core YoY	Aug	1.2%	--	1.2%	--
09/27	Univ. of Michigan Confidence	Sep F	78.0	--	76.8	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	9.3	17.1	21.6	26.2	27.8	27.0
FH/FN 15y	6.4	13.6	21.0	27.8	26.2	24.5
GN 15y	5.3	11.6	19.4	24.0	21.9	18.3
FH/FN 20y	3.3	4.9	13.2	25.0	29.8	31.1
FH/FN 30y	2.8	4.5	9.7	20.6	28.8	34.0
GN 30y	1.8	4.0	11.9	21.0	27.7	26.6
CPR Projections						
Type	2.5	3.0	3.5	4.0	4.5	5.0
FN 10y	8.0	12.7	15.8	15.4	15.4	19.5
FH/FN 15y	7.7	10.6	13.2	14.2	14.7	20.3
GN 15y	8.1	9.1	14.3	13.3	16.0	19.0
FH/FN 20y	6.6	7.7	10.1	10.7	14.1	21.3
FH/FN 30y	5.8	6.6	7.5	10.0	15.2	21.7
GN 30y	5.8	6.8	8.7	11.3	15.3	22.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	98.12	-1.77	97.55	95.21	78.82
Euro	1.35	0.02	1.33	1.30	1.30
Dollar Index	80.27	-1.24	81.26	82.69	79.25
Major Stock Indices					
Dow Jones	15,683.6	356.9	15,081.5	14,452.1	13,564.6
S&P 500	1,728.1	38.94	1,655.8	1,552.1	1,459.3
NASDAQ	3,785.0	59.96	3,602.8	3,237.6	3,177.8
Commodities					
Gold	1353.70	-10.10	1371.00	1610.90	1784.00
Crude Oil	108.45	0.89	107.29	93.87	95.59
Natural Gas	3.72	0.15	3.39	4.01	3.61
Wheat	646.50	-1.50	643.50	732.75	854.00
Corn	456.25	-16.25	463.50	562.00	632.50

Notes

- 1 Call Agy = Maturity at left w/ a 1-Year Call at Par
- 2 Muni TEY (34% Fed, 0.50% COF)
- 3 S-Corp TEY Muni (39.6%, no TEFERA)
- 4 MBS Prepayments are provided by Bloomberg

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