

## Week in Review

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It may be a quieter World Cup without the vuvuzelas that helped bring harmony to *futbol* fans in 2010, but that doesn't mean the world is a quieter place, and certainly not more harmonious. The discordant cacophony coming out of Iraq, OPEC's second largest producer, has sounded alarms with market participants around the globe. Anxiety over the sundering of that nation by rival factions has been a greater influence on financial markets than any of this week's economic news. This disquiet has worked to push bond prices higher and equity prices lower. And oil prices? Well.

Yes, oil prices higher. But inflation lower? Yes again. This morning's release of May's Producer Price Index (PPI) told us that at the core level (ex-food & energy) wholesale prices *fell* by .1% last month. The all-inclusive headline measure *fell* by .2%. That's not supposed to be happening, is it? Oh wait; we had a really harsh winter. Something else that wasn't supposed to happen was the drop in Consumer Confidence. The University of Michigan's Index of Consumer Sentiment fell to 81.2 from 81.9 in June's preliminary reading. These two disappointing reports just came out this morning, but the week started off with a more optimistic tone. In fact, the National Federation of Independent Business (NFIB) Optimism Index rose to 96.6 from 95.2. More good news came from the BLS in their Job Openings and Labor Turnover (JOLTs) report showing that the number of new job openings rose dramatically to 4,455k from 4,014k. That's huge! Also huge was last week's 10.3% increase in Mortgage Applications; reversing the prior week's 3.1% drop.

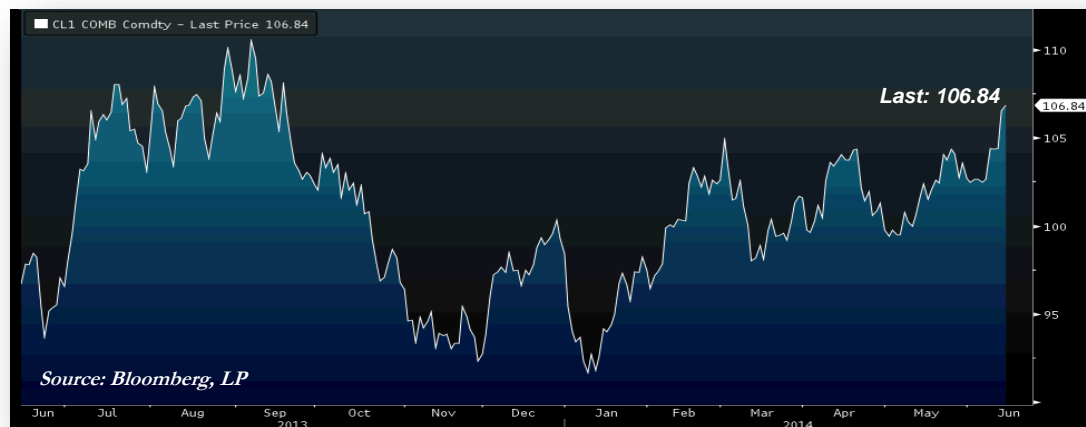
Retail Sales numbers for May also came out this week and they were *not* huge. The .3% rise in the total number was only half of what was expected, and if one doesn't count cars and gasoline, the rise was zero. Not to worry, though, winter was really harsh. A bit less harsh, but still going the wrong way, was the 317k increase in Initial Jobless Claims. That number was supposed to be falling slightly from last week's 313k.

Amidst this combination of rest and unrest, the Treasury held auctions for threes, tens, and thirties. The big surprise there occurred with the sale of the Long Bond where the bid-to-cover ratio, a measure of investor demand, rose significantly and surprisingly to 2.69 from May's 2.09. Part of that may be attributable to only selling \$13B versus last month's \$16B. That still seems like a lot o' bonds.

Next week will bring us more inflation news in the form of CPI along with Housing Starts and Industrial Production. The highlight of the week, however, will be Janet Yellen's Press Conference following the conclusion of the FOMC's meeting. And despite the large audience her appearances always command, the ban on noisemakers will be strictly enforced.

As uncertainty surrounds the fate of Iraq and the potential consequences for the rest of the world, the price of oil has moved sharply higher.

**West Texas Intermediate Crude Oil Futures - Last 12 Months**

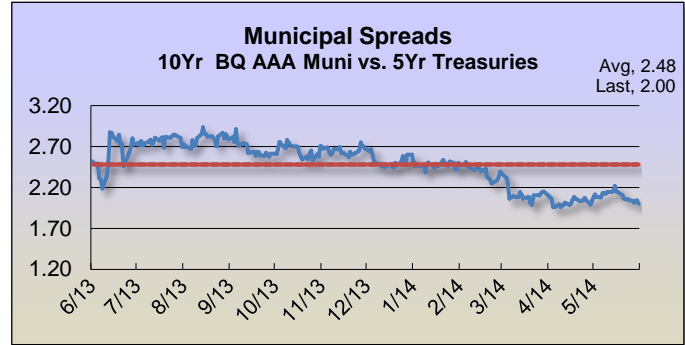
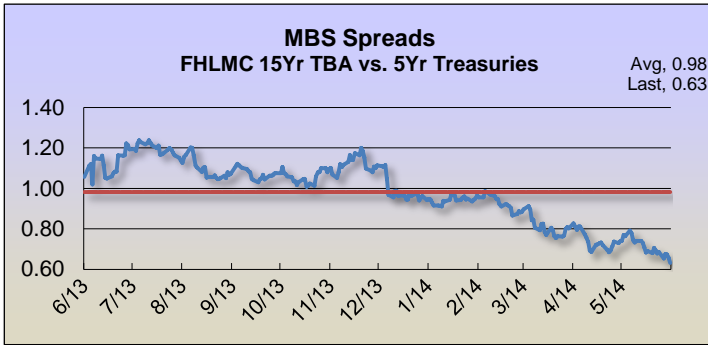
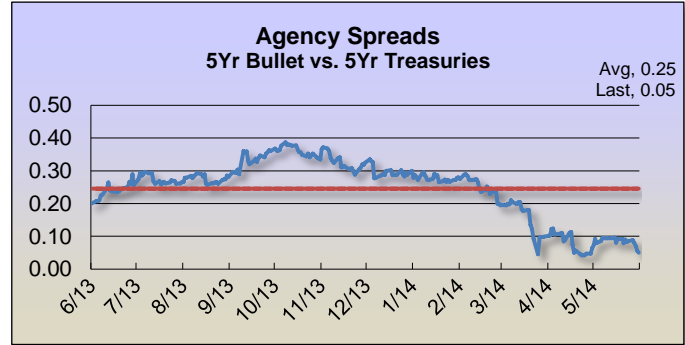
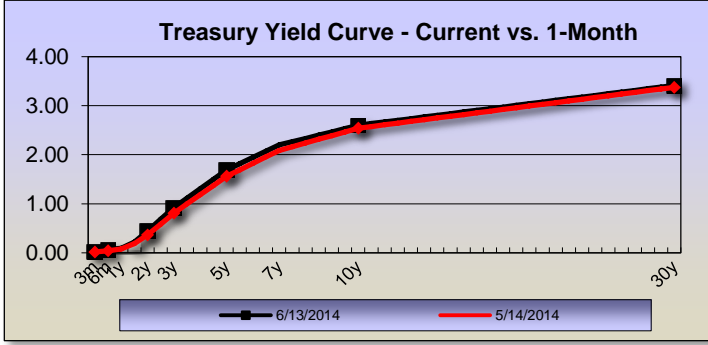


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# Baker Market Update



June 13, 2014



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	0.03	(0.00)	0.03	0.06	0.04	3mo	0.08					2Yr	0.56	0.58	0.53	-	
6mo	0.07	0.01	0.04	0.08	0.08	6mo	0.14					3Yr	1.08	1.09	1.03	0.97	
1yr	0.10	0.01	0.09	0.13	0.12	2yr	0.48	0.60	0.42	0.45	0.55	5Yr	1.88	1.88	1.84	1.81	
2yr	0.45	0.05	0.38	0.33	0.28	3yr	0.94	1.03	0.87	0.92	1.02	7Yr	2.30	2.40	2.40	2.40	
3yr	0.93	0.05	0.84	0.73	0.54	5yr	1.78	1.78	1.82	1.94	1.96	10Yr	2.84	2.92	2.93	2.95	
5yr	1.69	0.05	1.61	1.53	1.06	7yr	2.35	2.26	2.55	2.71	2.57	July TBA MBS					
7yr	2.20	0.02	2.15	2.24	1.55	10yr	3.02	2.70	3.26	3.47	3.16	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	2.60	0.01	2.61	2.87	2.15	15yr	3.48	3.10	3.95	4.20	3.86	2.00	2.36	5.4y		10.3y	
30yr	3.41	(0.02)	3.45	3.87	3.32	20yr	3.71	3.27	4.41	4.69	4.07	2.50	2.30	5.3y		3.31	9.5y
												3.00	2.24	4.8y		3.29	9.0y
												3.50	1.89	3.7y		3.20	8.4y
												4.00	2.06	3.4y		2.82	5.2y
												4.50	2.37	3.1y		2.56	4.5y

\* 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	0.15	--	0.15	0.16	0.19
3 Month LIBOR	0.23	--	0.22	0.24	0.27
6 Month LIBOR	0.33	--	0.32	0.35	0.41
1 Year LIBOR	0.54	--	0.54	0.58	0.68
6 Month CD	0.39	0.03	0.29	0.32	0.36
1 Year CMT	0.10	--	0.09	0.14	0.14
REPO O/N	0.12	--	0.05	0.06	0.06
REPO 1Wk	0.14	--	0.15	0.20	0.20
CoF Federal	0.944	--	0.945	0.947	0.983
11th D. CoF (Apr)	0.682	--	0.701	0.963	0.970

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	0.21	0.34	0.16	0.35	Jun-14	0.095
6mo	0.22	0.35	0.16	0.37	Jul-14	0.100
1yr	0.32	0.37	0.20	0.42	Aug-14	0.105
2yr	0.65	0.87	0.74	0.85	Sep-14	0.115
3yr	1.25	1.37	1.18	1.35	Oct-14	0.120
4yr	1.68	1.80	1.60	1.80	Nov-14	0.130
5yr	2.05	2.18	1.94	2.19	Dec-14	0.135
7yr	2.63	2.77	2.43	--	Jan-15	0.150
10yr	3.25	3.41	2.88	3.30	Feb-15	0.165
5yr Am	1.41		1.45	1.69	Mar-15	0.190
10yr Am	2.50		2.36	2.69	Apr-15	0.215

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
06/10	NFIB Small Business Optimism	May	95.8	96.6	95.2	--
06/10	JOLTS Job Openings	Apr	4,050	4,455	<del>4,014</del>	4,166
06/10	Wholesale Inventories MoM	Apr	0.6%	1.1%	1.1%	--
06/10	Wholesale Trade Sales MoM	Apr	0.9%	1.3%	<del>1.4%</del>	1.6%
06/10	U.S. Sells USD28 Bln 3-Year Notes; High Yld 0.930%					
06/11	MBA Mortgage Applications	6/6	--	10.3%	-3.1%	--
06/11	U.S. Sells USD21 Bln 10-Year Notes Reopening; High Yld 2.648%					
06/11	Monthly Budget Statement	May	-\$130.5B	-\$130.0B	-\$138.7B	--
06/12	Retail Sales Advance MoM	May	0.6%	0.3%	<del>0.1%</del>	0.5%
06/12	Retail Sales Ex Auto MoM	May	0.4%	0.1%	<del>0.0%</del>	0.4%
06/12	Retail Sales Ex Auto and Gas	May	0.4%	0.0%	<del>-0.1%</del>	0.3%
06/12	Retail Sales Control Group	May	0.4%	0.0%	<del>-0.1%</del>	0.2%
06/12	Import Price Index MoM	May	0.2%	0.1%	<del>-0.4%</del>	-0.5%
06/12	Import Price Index YoY	May	0.5%	0.4%	<del>-0.3%</del>	-0.4%
06/12	Initial Jobless Claims	6/7	310K	317K	<del>312K</del>	313K
06/12	Continuing Claims	5/31	2605K	2614K	2603K	--
06/12	Business Inventories	Apr	0.4%	0.6%	0.4%	--
06/12	U.S. Sells USD13 Bln 30-Year Bonds Reopening; High Yld 3.444%					
06/13	PPI Final Demand MoM	May	0.1%	-0.2%	0.6%	--
06/13	PPI Ex Food and Energy MoM	May	0.1%	-0.1%	0.5%	--
06/13	PPI Final Demand YoY	May	2.4%	2.0%	2.1%	--
06/13	PPI Ex Food and Energy YoY	May	2.3%	2.0%	1.9%	--
06/13	Univ. of Michigan Confidence	Jun P	83.0	81.2	81.9	--
06/16	Empire Manufacturing	Jun	15.0	--	19.0	--
06/16	Net Long-term TIC Flows	Apr	\$30.0B	--	\$4.0B	--
06/16	Total Net TIC Flows	Apr	--	--	-\$126.1B	--
06/16	Industrial Production MoM	May	0.5%	--	-0.6%	--
06/16	Capacity Utilization	May	78.9%	--	78.6%	--
06/16	Manufacturing (SIC) Production	May	0.6%	--	-0.4%	--
06/16	NAHB Housing Market Index	Jun	47.0	--	45.0	--
06/17	CPI MoM	May	0.2%	--	0.30%	--
06/17	CPI Ex Food and Energy MoM	May	0.2%	--	0.20%	--
06/17	CPI YoY	May	2.0%	--	2.00%	--
06/17	CPI Ex Food and Energy YoY	May	1.9%	--	1.8%	--
06/17	Housing Starts	May	1040K	--	1072K	--
06/17	Housing Starts MoM	May	-3.0%	--	13.2%	--
06/17	Building Permits	May	1060K	--	<del>1080K</del>	1059K
06/17	Building Permits MoM	May	0.1%	--	<del>8.0%</del>	5.9%
06/18	Current Account Balance	1Q	-\$96.6B	--	-\$81.1B	--
06/18	Fed QE3 Pace	Jun	\$35B	--	\$45B	--
06/18	Fed Pace of Treasury Pur	Jun	\$20B	--	\$25B	--
06/18	Fed Pace of MBS Purchases	Jun	\$15B	--	\$20B	--
06/18	FOMC Rate Decision	6/18	0.3%	--	0.3%	--
06/19	Initial Jobless Claims	6/14	314K	--	317K	--
06/19	Continuing Claims	6/7	2600K	--	2614K	--
06/19	Philadelphia Fed Business Outlook	Jun	14.0	--	15.4	--
06/19	Leading Index	May	0.6%	--	0.4%	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	5.9	7.6	10.9	13.5	16.5	19.6
FH/FN 15y	4.2	5.5	7.3	10.2	14.7	16.7
GN 15y	4.4	6.3	8.9	12.3	15.1	16.0
FH/FN 20y		3.8	4.3	6.3	10.0	14.6
FH/FN 30y		3.0	4.5	6.0	8.2	13.0
GN 30y	0.6	4.1	6.4	10.3	13.1	16.8
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	7.7	9.1	15.8	17.5	17.3	17.1
FH/FN 15y	7.3	8.0	10.2	15.4	16.5	18.6
GN 15y	3.1	8.1	10.9	14.2	14.0	15.8
FH/FN 20y	6.0	6.9	8.1	12.6	14.0	15.3
FH/FN 30y	4.9	6.2	7.1	8.1	15.4	18.2
GN 30y	2.0	6.8	8.2	10.8	15.6	19.0

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	102.02	(0.46)	102.26	103.21	95.37
Euro	1.35	(0.01)	1.37	1.37	1.34
Dollar Index	80.64	0.23	80.14	80.21	80.75
<b>Major Stock Indices</b>					
Dow Jones	16,769	(156)	16,715	15,755	15,176
S&P 500	1,935.4	(14.0)	1,897.5	1,775.3	1,636.4
NASDAQ	4,310.4	(11.0)	4,130.2	4,001.0	3,445.4
<b>Commodities</b>					
Gold	1,274.7	22.6	1,294.8	1,235.7	1,377.6
Crude Oil	106.57	3.91	101.70	96.60	96.69
Natural Gas	4.74	0.03	4.36	4.35	3.81
Wheat	586.0	-32.3	700.0	618.3	685.5
Corn	447.0	-12.0	503.3	420.5	643.5

### Notes

- 1 Call Agy = Maturity at left w/ a 1-Year Call at Par
- 2 Muni TEY (34% Fed, 0.5% COF)
- 3 S-Corp TEY Muni (39.6%, no TEFERA)
- 4 MBS Prepayments are provided by Bloomberg

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