

Week in Review

“Let them eat cake.” Almost 250 years has passed since Marie Antoinette was credited with uttering this succinct expression of her disdain for the French citizenry. Last weekend the voters of France got a chance to express *their* disdain for President Sarkozy’s austerity measures by replacing him with Socialist Party candidate Francois Hollande. Perhaps this was their way of saying “We want *more* cake and we want it *now*”. Similar election results in Greece have given further evidence that austerity fatigue has already begun to take its toll on those debt laden nations’ attempts to bring order to their fiscal houses. One may recall that it was only last month when the governmental leadership of The Netherlands resigned amidst the overwhelming unpopularity of budgetary belt-tightening programs.

What in the world do elections in Europe have to do with the bond market in the United States? Well, as the probability increases that the unity of the EU may be crumbling along with the viability of the Euro, the risk refuge trade has been the main driver of this week’s bond rally that saw the Ten Year trade at yields as low as 1.79%. This morning finds the yield on that Benchmark issue at 1.84%. The market had little else to focus on this week as the calendar of economic statistical releases was light.

The few numbers that did come out included a 1.7% increase in Mortgage Applications; certainly better news than last month’s meager .1% increase. Yesterday saw Initial Jobless Claims come in at 367m; nearly unchanged from last week’s upwardly revised 368m. Another Thursday announcement also saw the Trade Deficit grow substantially wider than expected as it increased to 51.8B from last month’s 45.4B. Increased imports from China coupled with decreased exports to Europe get the credit. This morning, the core value of the Producer Price Index recorded a 2.7% increase on a year-over-year basis. The monthly increase for the same measure was .2%. A surprisingly good University of Michigan Index of Consumer Sentiment report showed the value of that measurement climbing to 77.8 from last month’s 76.4. This was even more unexpected given that the market was expecting an index level of 76.

This week’s big Treasury auctions of “3’s, 10’s, and 30’s” managed to go off with no major hitches. A bit surprising to some was the drop in the bid-to-cover ratio for the Ten Year issue. Wednesday’s sale saw that number fall significantly from last month’s 3.08 to 2.90. A drop of almost 20 basis points in that issue’s yield may have had something to do with that.

Next week brings us another inflation measurement as CPI is due for release on Tuesday along with Retail Sales. Housing Starts and Industrial Production will be announced on the following day.

Who ordered the chicken salad? Hopefully, the answer to that and other pressing questions will be discovered on Wednesday when the Fed releases the minutes of the last FOMC meeting.

US Trade Balance - Since 2006



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The widening Trade Deficit that has become a characteristic of this recovery cycle continues.

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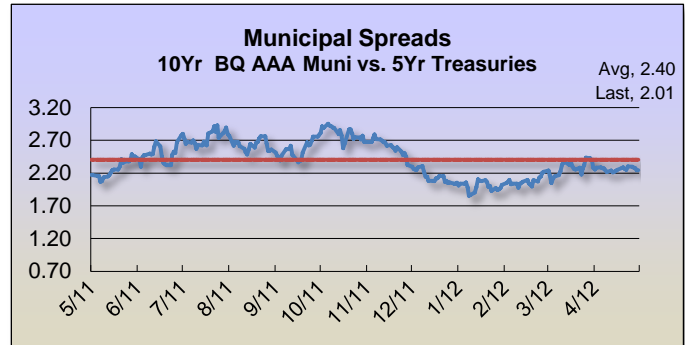
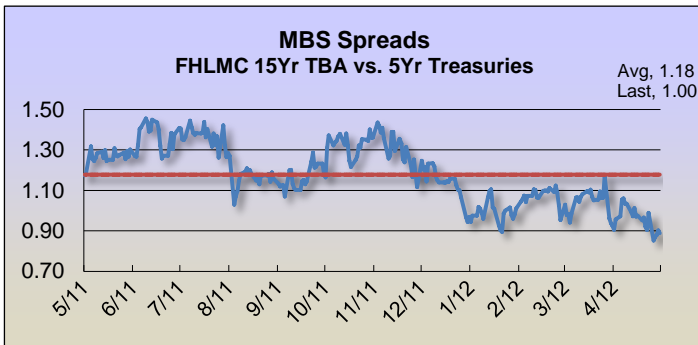
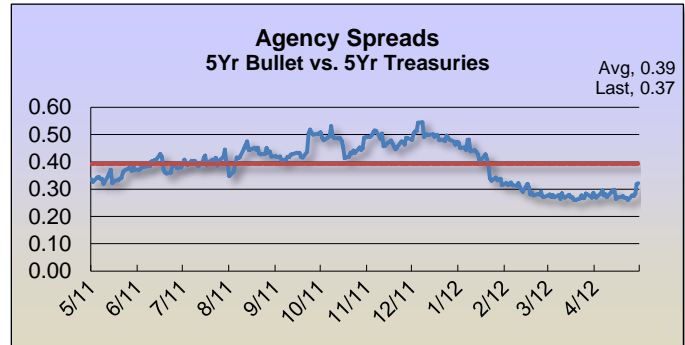
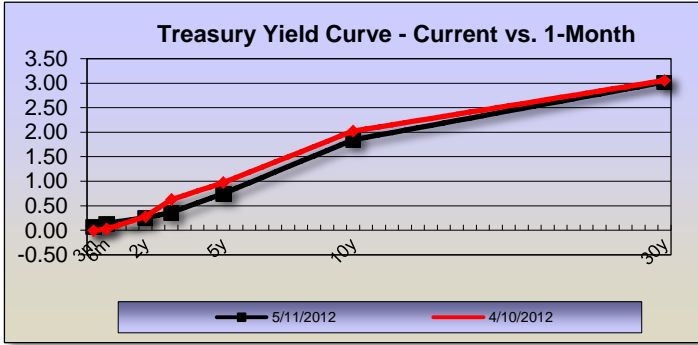
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Baker Market Update



May 11, 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 | 0.09 | 0.01 | 0.08 | 0.00 | 0.02 | 3mo | 0.18 | | | | | 2Yr | - | - | - | - |
| 6mo | 0.14 | 0.01 | 0.14 | 0.03 | 0.07 | 6mo | 0.22 | | | | | 3Yr | - | - | - | - |
| 1yr | 0.17 | (0.00) | 0.18 | 0.08 | 0.17 | 1yr | 0.23 | | | | 0.47 | 5Yr | - | - | 1.11 | 1.12 |
| 2yr | 0.26 | 0.00 | 0.29 | 0.23 | 0.55 | 2yr | 0.35 | 0.60 | 0.71 | 0.75 | 0.58 | 7Yr | - | 1.55 | 1.69 | 1.73 |
| 3yr | 0.37 | (0.01) | 0.43 | 0.46 | 0.98 | 3yr | 0.53 | 0.70 | 0.94 | 0.95 | 0.77 | 10Yr | - | 2.18 | 2.32 | 2.33 |
| 5yr | 0.75 | (0.03) | 0.88 | 0.91 | 1.85 | 5yr | 1.05 | 1.09 | 1.39 | 1.42 | 1.39 | June TBA MBS | | | | |
| 7yr | 1.24 | (0.04) | 1.41 | 1.46 | 2.52 | 7yr | 1.49 | 1.53 | 1.96 | 1.99 | 1.92 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 1.85 | (0.03) | 2.04 | 2.06 | 3.16 | 10yr | 2.29 | 1.99 | 2.84 | 2.89 | 2.65 | 4.00 | 1.28 | 2.53y | 1.96 | 3.17y |
| 30yr | 3.03 | (0.05) | 3.20 | 3.13 | 4.30 | 20yr | 3.22 | | 4.19 | 4.26 | 4.12 | 4.50 | 1.49 | 2.66y | 1.52 | 2.55y |
| | | | | | | | | | | | | 5.00 | 1.44 | 2.51y | 1.34 | 2.5y |
| | | | | | | | | | | | | 5.50 | 1.73 | 2.67y | 1.90 | 2.81y |
| | | | | | | | | | | | | 6.00 | 3.08 | 2.85y | 2.07 | 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 | 0.20 |
| 3 Month LIBOR | 0.47 | -- | 0.47 | 0.46 | 0.26 |
| 6 Month LIBOR | 0.73 | -- | 0.73 | 0.66 | 0.42 |
| 1 Year LIBOR | 1.06 | -- | 1.05 | 0.98 | 0.74 |
| 6 Month CD | 0.71 | -- | 0.72 | 0.63 | 0.40 |
| 1 Year CMT | 0.18 | -- | 0.19 | 0.10 | 0.19 |
| REPO O/N | 0.16 | -- | 0.14 | 0.05 | 0.00 |
| REPO 1Wk | 0.16 | -- | 0.16 | 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 | 0.26 | 0.37 |
| 6mo | 0.29 | 0.34 | 0.30 | 0.44 |
| 1yr | 0.33 | 0.44 | 0.35 | 0.49 |
| 2yr | 0.48 | 0.72 | 0.77 | 0.71 |
| 3yr | 0.74 | 0.94 | 0.92 | 0.87 |
| 4yr | 1.01 | 1.24 | 1.12 | 1.16 |
| 5yr | 1.24 | 1.46 | 1.37 | 1.43 |
| 7yr | 1.78 | 2.10 | 1.97 | -- |
| 10yr | 2.52 | 2.78 | 2.59 | 2.60 |
| 5yr Am | 0.95 | | 1.09 | 1.14 |
| 10yr Am | 1.97 | | 1.97 | 1.99 |

| Fed Fund Futures | |
|------------------|-------|
| Maturity | Rate |
| May-12 | 0.153 |
| Jun-12 | 0.150 |
| Jul-12 | 0.155 |
| Aug-12 | 0.155 |
| Sep-12 | 0.165 |
| Oct-12 | 0.165 |
| Nov-12 | 0.170 |
| Dec-12 | 0.165 |
| Jan-13 | 0.165 |
| Feb-13 | 0.165 |
| Mar-13 | 0.170 |

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Baker Market Update



May 11, 2012

| Weekly Economic Calendar | | | | | | |
|--------------------------|---|-------|----------|-----------|----------|----------|
| This Week & Next | | | | | | |
| Date | Release | Per. | Est. | Actual | Prior | Revised |
| 05/07 | Consumer Credit | MAR | \$9.800B | \$21.355B | \$8.735B | \$9.267B |
| 05/08 | NFIB Small Business Optimism | APR | 93.0 | 94.5 | 92.5 | -- |
| 05/08 | IBD/TIPP Economic Optimism | MAY | 48.0 | 48.5 | 49.3 | -- |
| 05/08 | JOLT's Job Openings | MAR | -- | 3,737 | 3,498 | 3,565 |
| 05/08 | U.S. Sells USD32 Bln 3-Year Notes; High Yld 0.362% | | | | | |
| 05/09 | MBA Mortgage Applications | 5/4 | -- | 1.7% | 0.1% | -- |
| 05/09 | Wholesale Inventories | MAR | 0.6% | 0.3% | 0.9% | -- |
| 05/09 | U.S. Sells USD24 Bln 10-Year Notes; High Yld 1.855% | | | | | |
| 05/10 | Import Price Index (MoM) | APR | -0.2% | -0.5% | 1.3% | 1.5% |
| 05/10 | Import Price Index (YoY) | APR | 0.8% | 0.5% | 3.4% | 3.6% |
| 05/10 | Trade Balance | MAR | -\$50.0B | -\$51.8B | -\$46.0B | -\$45.4B |
| 05/10 | Initial Jobless Claims | 5/5 | 368K | 367K | 365K | 368K |
| 05/10 | Continuing Claims | 4/28 | 3275K | 3229K | 3276K | 3290K |
| 05/10 | Bloomberg Consumer Comfort | 5/6 | -- | (40.4) | (37.6) | -- |
| 05/10 | U.S. Sells USD16 Bln 30-Year Bonds; High Yld 3.090% | | | | | |
| 05/10 | Monthly Budget Statement | APR | \$35.0B | \$59.1B | -\$40.4B | -- |
| 05/11 | Producer Price Index (MoM) | APR | 0.0% | -0.2% | 0.0% | -- |
| 05/11 | PPI Ex Food & Energy (MoM) | APR | 0.2% | 0.2% | 0.3% | -- |
| 05/11 | Producer Price Index (YoY) | APR | 2.1% | 1.9% | 2.8% | -- |
| 05/11 | PPI Ex Food & Energy (YoY) | APR | 2.8% | 2.7% | 2.9% | -- |
| 05/11 | U. of Michigan Confidence | MAY P | 76.0 | 77.8 | 76.4 | -- |
| 14-18 | Mortgage Delinquencies | 1Q | -- | -- | 7.6% | -- |
| 14-18 | MBA Mortgage Foreclosures | 1Q | -- | -- | 4.4% | -- |
| 05/15 | Consumer Price Index (MoM) | APR | 0.1% | -- | 0.3% | -- |
| 05/15 | CPI Ex Food & Energy (MoM) | APR | 0.2% | -- | 0.2% | -- |
| 05/15 | Consumer Price Index (YoY) | APR | 2.3% | -- | 2.7% | -- |
| 05/15 | CPI Ex Food & Energy (YoY) | APR | 2.3% | -- | 2.3% | -- |
| 05/15 | Empire Manufacturing | MAY | 9.0 | -- | 6.6 | -- |
| 05/15 | Advance Retail Sales | APR | 0.2% | -- | 0.8% | -- |
| 05/15 | Retail Sales Less Autos | APR | 0.2% | -- | 0.8% | -- |
| 05/15 | Retail Sales Ex Auto & Gas | APR | 0.3% | 0.7% | 0.7% | 0.7% |
| 05/15 | Retail Sales "Control Group" | APR | 0.4% | -- | 0.4% | 0.4% |
| 05/15 | Net Long-term TIC Flows | MAR | \$40.0B | -- | \$10.1B | -- |
| 05/15 | Business Inventories | MAR | 0.4% | -- | 0.6% | -- |
| 05/15 | NAHB Housing Market Index | MAY | 26.0 | -- | 25.0 | -- |
| 05/16 | MBA Mortgage Applications | 5/11 | -- | -- | 1.7% | -- |
| 05/16 | Housing Starts | APR | 680K | -- | 654K | -- |
| 05/16 | Building Permits | APR | 730K | -- | 747K | 764K |
| 05/16 | Industrial Production | APR | 0.5% | -- | 0.0% | -- |
| 05/16 | Capacity Utilization | APR | 78.9% | -- | 78.6% | -- |
| 05/16 | Manufacturing (SIC) Production | APR | -- | -- | -0.2% | -- |
| 05/16 | Minutes of FOMC Meeting | | | | | |
| 05/17 | Initial Jobless Claims | 5/12 | 365K | -- | 367K | -- |
| 05/17 | Continuing Claims | 5/5 | 3240K | -- | 3229K | -- |
| 05/17 | Philadelphia Fed. | MAY | 10.0 | -- | 8.5 | -- |
| 05/17 | Leading Indicators | APR | 0.2% | -- | 0.3% | -- |
| 05/17 | U.S. to Sell USD13 Bln 10-Year TIPS Re | | | | | |

| MBS Prepayments ⁴ | | | | | |
|------------------------------|------|------|------|------|------|
| 3-Month CPR | | | | | |
| Type | 4.5 | 5.0 | 5.5 | 6.0 | 6.5 |
| FN 10y | 26.5 | 25.8 | 22.3 | 20.9 | 14.2 |
| FH/FN 15y | 25.7 | 23.5 | 22.6 | 20.2 | 17.5 |
| GN 15y | 19.1 | 19.1 | 15.8 | 18.1 | 17.3 |
| FH/FN 20y | 26.9 | 27.9 | 27.1 | 24.0 | 18.8 |
| FH/FN 30y | 28.5 | 28.5 | 30.8 | 28.6 | 23.9 |
| GN 30y | 21.5 | 21.9 | 23.8 | 25.6 | 20.8 |
| PSA Projections | | | | | |
| Type | 4.5 | 5.0 | 5.5 | 6.0 | 6.5 |
| FN 10y | 427 | 445 | 407 | 359 | 329 |
| FH/FN 15y | 418 | 440 | 406 | 358 | 327 |
| GN 15y | 290 | 360 | 365 | 339 | 272 |
| FH/FN 20y | 396 | 442 | 418 | 376 | 384 |
| FH/FN 30y | 543 | 541 | 484 | 476 | 460 |
| GN 30y | 470 | 400 | 483 | 495 | 480 |

| Other Markets | | | | | |
|----------------------------|----------|----------|------------|----------|----------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 79.86 | 0.01 | 80.86 | 77.20 | 81.05 |
| Euro | 1.29 | (0.02) | 1.31 | 1.38 | 1.42 |
| Dollar Index | 80.16 | 0.66 | 79.80 | 76.95 | 75.33 |
| Major Stock Indices | | | | | |
| Dow Jones | 12,891.4 | (146.8) | 12,805.4 | 12,153.7 | 12,630.0 |
| S&P 500 | 1,363.9 | (5.2) | 1,368.7 | 1,263.9 | 1,342.1 |
| NASDAQ | 2,953.4 | (3.0) | 3,016.5 | 2,678.8 | 2,845.1 |
| Commodities | | | | | |
| Gold | 1,588.30 | (56.90) | 1,660.30 | 1,794.50 | 1,509.30 |
| Crude Oil | 97.03 | (1.46) | 103.18 | 98.12 | 98.96 |
| Natural Gas | 2.48 | 0.20 | 2.11 | 3.78 | 4.73 |
| Wheat | 600.8 | (8.8) | 633.5 | 681.0 | 906.0 |
| Corn | 590.75 | (29.50) | 627.00 | 656.25 | 652.50 |

Notes: ¹ Call Agy = 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

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. Although believed to be reliable, The Baker Group does not guarantee the accuracy of the listed information. This report was printed as of: 05/11/2012 11:17AM

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