

Weekly Capital Markets

February 22, 2010



Market Review

The Week in Review

Economic Releases for the Week Ending 2/19/10			
	**Consensus	Actual	Prior Period
Jan. Housing Starts	580k	591k	575k
Jan. Leading Indicators	0.5%	0.3%	1.2%
Jan. CPI	0.3%	0.2%	0.1%

The holiday-shortened trading week was centered more on news coming from the Federal Reserve (Fed) than on the mixed economic releases. The most significant event of the week occurred after markets had closed on Thursday, when the Fed increased the discount rate by 50 basis points from 0.25% to 0.75%. The hike increased the spread over the Fed funds rate to 50 basis points, and led to an immediate sell-off in equities and an increase in the dollar. Those moves were short-lived and U.S. equities had recovered by the open on Friday morning. In the end, the increase signals an end to the emergency measures the Fed has put in place, however no real change in monetary policy. Global equity markets were higher for the week, with the U.S. S&P 500 gaining 3.13%, while yields on U.S. Treasuries also rose. The yield on the benchmark 10-year Treasury climbed eight basis points.

Economic releases were mixed. New housing starts in January rose 2.8% (month-over-month) to an annualized rate of 591,000, but building permits fell by 4.9%. The National Association of Homebuilders index, which is an overall gauge on housing, beat expectations but is still very depressed. The index rose from 15 to 17 (out of 100). The index of leading economic indicators is demonstrating a deceleration in growth. After rising by more than 1% in the previous two months, the index was up just 0.3% in January. On the inflation front, the headline consumer price index (CPI) rose 0.2% while core CPI, excluding food and energy, declined by 0.1%.

The Week Ahead

Economic Releases for the Week Ending 2/26/10		
	**Consensus	Prior Period
Dec. Case-Schiller Index	-3.0%	-5.3%
Jan. Durable Goods Orders	1.5%	0.3%
Q4 GDP	5.7%	5.7%

The focus of this week is likely to remain on news coming from Fed speakers. Treasury Secretary Tim Geithner will testify to the House Budget Committee on the budget proposal for fiscal year 2011 on Wednesday, February 24 and Fed Chairman Ben Bernanke will give his semi-annual Humphrey Hawkins testimony on monetary policy on Wednesday and Thursday, February 25. Expectations are for the Chairman's testimony to sound more upbeat in regards to the economic outlook and also hopefully to elaborate on the continuation of the exit strategy for quantitative easing. The economic releases should not be market-moving. Housing data is expected to remain volatile. After six consecutive month-over-month increases, the December Case-Schiller home price index is expected to remain relatively flat, while showing year-over-year declines of 3.0%. Total durable goods orders are expected to have increased 1.5% in January and goods orders excluding transportation are expected to have risen 0.9%. This increase would be a nice rebound for the headline number, which rose just 0.3% in December. Finally, the second estimate of fourth quarter gross domestic product (GDP) will also be released. Economists expect the number to remain at 5.7%, which is the strongest growth rate in six years.

World Bond Rates	2/19/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.78%	0.08%	0.17%	-0.06%
GBR 10y	4.17%	0.13%	0.25%	0.16%
GER 10y	3.29%	0.09%	0.07%	-0.10%
CAN 10y	3.50%	0.04%	0.13%	-0.11%
JAP 10y	1.34%	0.01%	0.01%	0.05%

Central Bank Rates	2/19/10	12/31/09	9/30/09	6/30/09
US Fed Funds	0.25	0.25	0.25	0.25
UK Bank Rate	0.50	0.50	0.50	0.50
GER Base Rate	1.00	1.00	1.00	1.00
CAN Bank Rate	0.25	0.25	0.25	0.25
JAP Disc Rate	0.10	0.10	0.10	0.10
3 Mo-LIBOR	0.25	0.25	0.28	0.56

Risk Premiums	2/19/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	91	-8	8	6
*30 Day T-Yld Vol.	84.9	-2.1	-3.4	-22.6
VIX	20.02%	-2.71%	-7.29%	-1.66%

Currencies	2/19/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.36	0.00	-0.05	-0.07
USD/CAN	0.96	0.01	0.02	0.01
JPY/USD	91.52	1.56	1.70	-1.50

Commodities	2/19/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,121.30	\$31.80	\$31.60	\$25.10
Oil (barrel)	\$79.81	\$5.68	\$5.27	\$0.45
Wholesale Gasoline (gal)	\$1.93	\$0.04	-\$0.12	-\$0.12
Natural Gas (mcf)	\$5.04	-\$0.42	-\$0.78	-\$0.53

Equity Markets	2/19/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,109.17	3.13%	1.59%	-0.53%
FTSE 100	5,358.17	4.19%	1.04%	-1.01%
DAX	5,722.05	4.03%	0.47%	-3.95%
S&P/TSX Comp	11,709.29	2.09%	3.23%	-0.31%
NIKKEI	10,123.58	0.31%	-4.41%	-4.01%