

# Weekly Capital Markets

May 17, 2010



## Market Review

### The Week in Review

#### Economic Releases for the Week Ending 5/14/10

	**Consensus	Actual	Prior Period
March Trade Balance	\$-41.0B	\$-40.4B	\$-39.4B
April Retail Sales	0.2%	0.4%	2.1%
April Industrial Production	0.6%	0.8%	0.1%

The week started off with a bang as the European Union agreed to a \$1 trillion bailout package for Greece. The positive news helped spur a one-day rally for the U.S. S&P 500, which ended the day 4.4% higher. The news also enticed investors out of the safety of Treasuries, pushing yields on the 10-year Treasury 12 basis points higher from 3.42% to 3.54%. The positive feelings were short-lived however and by week's end concerns over the situation had grown. The current debt crisis has driven a strong demand for gold, which hit a record high on Tuesday, while the Euro has continued to slide. The week ended with a Friday sell-off, as the S&P fell 1.9% on the day. For the week, the S&P did manage to hold on to a 2.23% gain, while the Euro fell four cents against the dollar to \$1.24, Oil dropped \$3.50 to \$71.61/barrel, and gold rose \$17.40 to \$1,227.80/oz.

The economic news continued to be mixed. April retail sales beat expectations for an increase of 0.2% and climbed 0.4%, while March's gains were revised up from 1.6% to 2.1%. Excluding autos, retail sales were 0.4% higher. The trade deficit grew by \$1.0 billion in March, as imports rose 3.1% and exports climbed 3.2%. The gains in exports were broad-based, indicating that global growth continues to boost U.S. GDP. April industrial production beat expectations, having risen by 0.8% during the month. One of the primary drivers behind the gain was the 1.0% increase in the manufacturing component, which continues to be led by the business-equipment component.

### The Week Ahead

#### Economic Releases for the Week Ending 5/21/10

	**Consensus	Prior Period
April Housing Starts	650k	616k
April CPI	0.1%	0.0%
April Leading Indicators	0.2%	1.4%

Financial markets will continue to be focused on the activities occurring in Europe and are likely to remain quite volatile, leaving U.S. economic releases to go mostly unnoticed. Of the data that will be released, the focus will be on housing, inflation, and the index of leading economic indicators. On the housing front, new home starts are expected to have risen 3.8% in April to an annualized rate of 650,000, while building permits are expected to have remained at an annualized pace of 680,000. Despite the expiration of the home buyer tax credit, the National Association of Homebuilders (NAHB) Index is expected to climb from 19 in April to 20 in May. The number should be boosted by warmer spring weather, low mortgage rates, and the gradual overall improvement in the economy. Inflation is expected to remain tame, with the headline consumer price index (CPI) showing an increase of just 0.1% in April (2.4% year-over-year) after remaining flat in March. Core CPI, which excludes food and energy, is also expected to have risen just 0.1% in the last month (and 1.0% in the last twelve months). Finally, the index of leading economic indicators is expected to print in positive territory for the 13th consecutive month. Expectations are for April's index to show an increase of 0.2% after March's increase of 1.4%.

World Bond Rates	5/14/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.46%	0.03%	-0.31%	-0.38%
GBR 10y	3.75%	-0.08%	-0.23%	-0.26%
GER 10y	2.86%	0.06%	-0.22%	-0.53%
CAN 10y	3.43%	-0.06%	-0.25%	-0.18%
JAP 10y	1.31%	0.02%	-0.05%	0.01%

Central Bank Rates	5/14/10	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	0.45	0.29	0.25	0.28

Risk Premiums	5/14/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	109	-10	22	24
*30 Day T-Yld Vol.	99.8	-12.8	16.9	-7.7
VIX	31.24%	-9.71%	12.88%	9.56%

Currencies	5/14/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.24	-0.04	-0.11	-0.20
USD/CAN	0.97	0.01	-0.02	0.02
JPY/USD	92.47	0.88	0.30	-0.55

Commodities	5/14/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,227.80	\$17.40	\$91.50	\$131.60
Oil (barrel)	\$71.61	-\$3.50	-\$11.63	-\$7.75
Wholesale Gasoline (gal)	\$2.13	\$0.01	-\$0.15	\$0.08
Natural Gas (mcf)	\$4.31	\$0.30	\$0.27	-\$1.26

Equity Markets	5/14/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,135.68	2.23%	-4.74%	1.85%
FTSE 100	5,262.85	2.73%	-8.38%	-2.77%
DAX	6,056.71	5.98%	-2.01%	1.67%
S&P/TSX Comp	12,014.97	2.76%	-0.46%	2.29%
NIKKEI	10,462.51	0.94%	-5.76%	-0.80%

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\* DJ CDX.NA.IG. 10 5Yr; 30 Day Avg. 1-month TSY Yield Volatility

\*\* www.bloomberg.com