

Weekly Capital Markets Market Review July 12, 2010



The Week in Review

Economic Releases for the Week Ending 7/9/10

	**Consensus	Actual	Prior Period
June Non-Mfg ISM	55.0	53.8	55.4
Initial Jobless Claims	460k	454k	475k
May Consumer Credit	-\$2.3B	-\$9.1B	-\$14.9B

Financial markets recovered from last week's sell-off as global equity markets moved higher and credit spreads tightened. The U.S. S&P 500 rallied amid optimism that positive second quarter earnings will push the index higher. The S&P rallied 5.42% during the week and is now 3.33% lower for the year. Bond markets also improved. Credit spreads on both investment grade and high yield assets classes were tighter. Yields on U.S. Treasuries rose as investors moved to riskier asset classes. The yield on the 10-year Treasury benchmark climbed seven basis points to 3.05%.

The economic calendar was light last week. The ISM non-manufacturing index slipped 1.6 points in June to 53.8 for its lowest reading since February. The decline was primarily driven by a drop in new orders, which fell nearly three points to 54.4 for its lowest reading of the year. Jobless claims showed some improvement. Initial claims fell 21,000 in the July 3 week to 454,000 while the four-week average fell 1,250 to 466,000. Both the weekly and the four-week average had their best week-over-week improvement since early May. Another positive surprise was the news that retail sales picked up in late June, as retailers increased promotions to move summer merchandise. The International Council of Shopping Centers (ICSC) Chain Store Sales index rose 3.0% year to year in June. This positive news helped to ease some concern that a slump in consumer confidence will undermine the economic recovery. Consumer credit contracted a sharp \$9.1 billion in May with April revised to show an even more severe \$14.9 billion contraction. The April revision is very surprising given the initial reading of a \$1.0 billion gain.

The Week Ahead

Economic Releases for the Week Ending 7/16/10

	**Consensus	Prior Period
June Retail Sales	-0.3%	-1.2%
June Industrial Production	-0.1%	1.3%
June CPI	-0.1%	-0.2%

The week ahead is moderately heavy with economic releases on several key market indicators, including retail sales, industrial production and the consumer price index (CPI). In May, retail sales fell a disappointing 1.2% due to a 9.3% plunge in building materials, while sales excluding autos declined 1.1% after advancing 0.6% in April. Analysts expect to see some leveling off in retail sales in June with expectations for a 0.2% decline in headline sales and for sales excluding autos to remain unchanged. Industrial production surged 1.3% in May as unusually warm temperatures throughout much of the country helped drive utility use up 4.8%, while capacity utilization continues its upward trend, reaching 74.7% in May. Looking ahead, economists expect a 0.1% decline in production in June, while capacity utilization is expected to remain in the mid-70 level with a forecast of 74%. Headline CPI has been negative two months in a row as slower global economic growth has helped to pull down gasoline prices. Substantial slack in the economy continued to put downward pressure on core consumer prices, which may drive the CPI down another 0.1% in June (up 1.2% year-over-year). Core CPI, excluding food and energy, is also expected to have risen 0.1% during June (up 0.9% year-over-year). One last item for the week will be the release of China's second quarter GDP. Most analysts look for slower growth in China since Chinese authorities have tightened policy over the past few months.

World Bond Rates	7/9/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.05%	0.07%	-0.18%	-0.79%
GBR 10y	3.33%	-0.02%	-0.13%	-0.68%
GER 10y	2.63%	0.05%	0.07%	-0.75%
CAN 10y	3.23%	0.13%	-0.18%	-0.38%
JAP 10y	1.16%	0.06%	-0.07%	-0.13%

Central Bank Rates	7/9/10	6/30/10	3/31/10	12/31/09
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	0.50	1.00	1.00
CAN Bank Rate	0.50	0.50	0.25	0.25
JAP Disc Rate	0.10	0.10	0.10	0.10
3 Mo-LIBOR	0.53	0.53	0.29	0.25

Risk Premiums	7/9/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	110	-14	-15	25
*30 Day T-Yld Vol.	85.1	-3.1	-20.8	-22.4
VIX	24.98%	-5.14%	-3.81%	3.30%

Currencies	7/9/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.26	0.01	0.05	-0.17
USD/CAN	0.97	0.03	0.00	0.02
JPY/USD	88.62	0.87	-3.03	-4.40

Commodities	7/9/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,209.80	\$2.10	-\$19.10	\$113.60
Oil (barrel)	\$76.09	\$3.95	\$2.31	-\$3.27
Wholesale Gasoline (gal)	\$2.07	\$0.09	\$0.02	\$0.02
Natural Gas (mcf)	\$4.40	-\$0.29	-\$0.38	-\$1.17

Equity Markets	7/9/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,077.96	5.42%	-1.25%	-3.33%
FTSE 100	5,132.94	6.09%	-0.60%	-5.17%
DAX	6,065.24	3.96%	0.29%	1.81%
S&P/TSX Comp	11,570.45	3.34%	-0.83%	-1.50%
NIKKEI	9,585.32	4.15%	-1.24%	-9.11%

Past performance is not necessarily a guide to future results. This commentary contains the current opinions of Aviva Investors and is not intended to be, and should not be interpreted as, a recommendation of any particular security, strategy or investment product. Such opinions are subject to change without notice. This commentary is distributed for informational purposes only and is not a recommendation or investment advice. The information herein is based on sources which Aviva Investors believes to be reliable, but is not guaranteed to be accurate or complete.

No part of this commentary may be reproduced in any form, or referred to in any other publication, without the express written permission of Aviva Investors North America, Inc.

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

** www.bloomberg.com