# Weekly Capital Markets
## Market Review
July 12, 2010

AVIVA INVESTORS

## 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% |



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

** www.bloomberg.com