

# Weekly Capital Markets Market Review July 19, 2010



## The Week in Review

### Economic Releases for the Week Ending 7/16/10

	**Consensus	Actual	Prior Period
June Retail Sales	-0.2%	-0.5%	-1.1%
May Trade Balance	\$-39.0B	\$-42.3B	\$-40.3B
June CPI	-0.1%	-0.1%	-0.2%

Last week was another roller coaster ride on the financial markets. The week began with strength as positive corporate earnings announcements helped build investor confidence. Markets turned negative, however, on Wednesday when poor economic releases and a downgrade of the economic outlook from the Federal Open Market Committee (FOMC) were making the headlines. Some of the uncertainties were also taken out of the market on Thursday when Goldman Sachs settled their fraud case with the SEC and the Senate passed the financial reform bill. Then the bottom fell out on Friday with a combination of poor earnings announcements and consumer sentiment readings. The S&P finished the week 1.21% lower and is now down 4.50% year-to-date.

Economic releases were mixed. Headline retail sales failed to meet analyst expectations. After falling 1.1% in May, sales dropped another 0.5% during the month of June, versus expectations for a decline of 0.2%. A big reason for June's decline was a drop of 2.3% in automobile sales, which were expected to remain flat. Excluding autos, sales were down just 0.1% versus expectations for an unchanged reading. Despite a rebound in exports, the U.S. trade deficit grew from \$40.3 billion to \$42.3 billion. Expectations were for the deficit to contract slightly to \$39.0 billion. Exports rose 2.4% during the month, while imports climbed 2.9%. Inflation remains a non-issue as the consumer price index (CPI) met expectations and fell 0.1% in June. Energy and gasoline prices were lower for the month, while food prices were flat for the second consecutive month. Year-over-year headline CPI is 1.1% higher. Core CPI, excluding food and energy rose 0.1% and is 1.0% higher year-over-year.

## The Week Ahead

### Economic Releases for the Week Ending 7/23/10

	**Consensus	Prior Period
June Housing Starts	-2.8%	-10.0%
June Existing Home Sales	-9.9%	-2.2%
June Leading Indicators	-0.3%	0.4%

The week ahead is relatively light on economic news and will be dominated by second quarter corporate earnings announcements. There are well over 100 companies reporting this week in virtually every sector and that is where the markets will be focused. Earnings are expected to be generally positive but it is unknown whether or not that strength will be able to offset negative news from the economic releases. The economic data is focused on the housing sector and the leading economic indicator index. Housing data is expected to remain sluggish after the expiration of the homebuyer tax credit. The National Association of Homebuilders (NAHB) index is expected to continue falling. Expectations are for the index to drop from 17 in June to 16 in July. After falling by 10.0% in May, housing starts are expected to have fallen another 2.8% in June to an annualized pace of 577,000, while building permits are expected to remain relatively unchanged at an annualized pace of 575,000. June's existing home sales are also expected to fall. Existing sales were down 2.2% in May and are expected to have fallen 9.9% in June. Finally, the index of leading economic indicators is expected to fall 0.3% in June after rising by 0.4% in May. Two main drivers of the negative print are likely to be falling stock prices and building permits.

World Bond Rates	7/16/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	2.92%	-0.13%	-0.30%	-0.92%
GBR 10y	3.33%	0.00%	-0.21%	-0.68%
GER 10y	2.61%	-0.03%	-0.12%	-0.78%
CAN 10y	3.16%	-0.07%	-0.16%	-0.45%
JAP 10y	1.10%	-0.07%	-0.11%	-0.20%

Central Bank Rates	7/16/10	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	0.52	0.53	0.29	0.25

Risk Premiums	7/16/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	113	3	3	28
*30 Day T-Yld Vol.	81.2	-3.9	-13.2	-26.3
VIX	26.25%	1.27%	2.30%	4.57%

Currencies	7/16/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.29	0.03	0.05	-0.14
USD/CAN	0.95	-0.02	-0.03	0.00
JPY/USD	86.57	-2.05	-4.14	-6.45

Commodities	7/16/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,188.20	-\$21.60	-\$69.00	\$92.00
Oil (barrel)	\$76.01	-\$0.08	-\$1.17	-\$3.35
Wholesale Gasoline (gal)	\$2.05	-\$0.02	-\$0.10	\$0.00
Natural Gas (mcf)	\$4.52	\$0.12	-\$0.48	-\$1.05

Equity Markets	7/16/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,064.88	-1.21%	-4.71%	-4.50%
FTSE 100	5,158.85	0.50%	-1.75%	-4.69%
DAX	6,040.27	-0.41%	-2.84%	1.39%
S&P/TSX Comp	11,569.65	-0.01%	-3.00%	-1.50%
NIKKEI	9,408.36	-1.85%	-5.87%	-10.79%

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

\*\* www.bloomberg.com