

# Weekly Capital Markets Market Review June 21, 2010



## The Week in Review

### Economic Releases for the Week Ending 6/18/10

	**Consensus	Actual	Prior Period
May Housing Starts	648k	593k	672k
May Industrial Production	0.9%	1.2%	0.7%
May CPI	-0.2%	-0.2%	-0.1%

Compared to recent weeks last week was relatively quiet with the U.S. S&P 500 having only one day with a move greater than 1%. Equities around the world were higher and the S&P rallied 2.37%. Yields on U.S. Treasuries were relatively unchanged on the week. The yield on the 10-year Treasury fell one basis point from 3.23% to 3.22%, while the yield on the 30-year was unchanged at 4.15%. The majority of commodities rose, with oil climbing \$3.40/barrel to \$77.18 and gold hitting a new record high before finishing the week at \$1,257.20/ounce. The Euro strengthened throughout the week, finishing at \$1.24. On the oil spill front, BP agreed to set up a \$20 billion fund to assist in the clean-up and claims process due to the ongoing spill in the Gulf of Mexico.

The economic data continued to paint a mixed picture of the recovery. Housing starts fell more than 10% in May after the end of the special homebuyer tax credit program. Economists were expecting starts to fall from an annualized rate of 672,000 to 648,000 but the actual numbers indicated that starts fell all the way to an annualized pace of 593,000. On a more positive note, industrial production surprised to the upside, having gained 1.2% versus expectations of a gain of 1.0%. The three primary drivers of the positive surprise were manufacturing, utilities output, and motor vehicle production, which were up 0.9%, 4.8%, and 5.5%, respectively. Inflation continues to be a non-issue. Lower gasoline prices pulled the headline consumer price index (CPI) down 0.2% in May (2.0% higher year-over-year), while core CPI, excluding food and energy was up just 0.1% (0.9% year-over-year). Producer prices were also tame. The headline producer price index (PPI) was down 0.3%, while core PPI was up 0.2%.

## The Week Ahead

### Economic Releases for the Week Ending 6/25/10

	**Consensus	Prior Period
May Existing Home Sales	6.0%	7.6%
FOMC Rate Decision	0.25%	0.25%
May Durable Goods Orders	-1.4%	2.9%

The week ahead is relatively light on economic releases and the focus of the data will remain on housing, jobs, and the consumer. Another focus will be on the Federal Open Market Committee (FOMC), which will hold their two-day meeting on Tuesday and Wednesday. The culmination of the meeting will come on Wednesday, with the release of the Fed funds rate. Economists do not expect a change in the rate, which is currently in a range between 0.00% and 0.25%, and will instead analyze the accompanying statement for any changes to the economic forecast or language concerning the European sovereign debt crisis. On the economic front, existing home sales are expected to have risen by 6.0% to an annualized pace of 6.12 million, while new home sales are likely to have dropped by 20.6%. Initial jobless claims are expected to remain stubbornly high in the 450,000 to 460,000 range and continuing claims are likely to remain around 4.5 million. Finally, orders for durable goods are expected to have fallen by 1.4% in May after climbing 2.9% in April. Excluding autos, durable goods orders are likely to have risen by 1.0%.

World Bond Rates	6/18/10	1-Wk Chg	4-Wk Chg	YTD
US 10y	3.22%	-0.01%	-0.02%	-0.62%
GBR 10y	3.54%	0.08%	-0.01%	-0.47%
GER 10y	2.73%	0.16%	0.06%	-0.66%
CAN 10y	3.33%	-0.08%	-0.03%	-0.29%
JAP 10y	1.21%	-0.03%	-0.04%	-0.09%

Central Bank Rates	6/18/10	3/31/10	12/31/09	9/30/09
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	0.50	0.25	0.25	0.25
JAP Disc Rate	0.10	0.10	0.10	0.10
3 Mo-LIBOR	0.54	0.29	0.25	0.28

Risk Premiums	6/18/10	1-Wk Chg	4-Wk Chg	YTD
*CDX (bps)	110	-15	-10	25
*30 Day T-Yld Vol.	94.4	-11.5	-14.3	-13.1
VIX	23.95%	-4.84%	-16.15%	2.27%

Currencies	6/18/10	1-Wk Chg	4-Wk Chg	YTD
USD/EUR	1.24	0.03	-0.02	-0.19
USD/CAN	0.98	0.01	0.03	0.03
JPY/USD	90.71	-0.94	0.71	-2.31

Commodities	6/18/10	1-Wk Chg	4-Wk Chg	YTD
Gold (oz.)	\$1,257.20	\$28.30	\$81.10	\$161.00
Oil (barrel)	\$77.18	\$3.40	\$7.14	-\$2.18
Wholesale Gasoline (gal)	\$2.15	\$0.10	\$0.19	\$0.10
Natural Gas (mcf)	\$5.00	\$0.22	\$0.96	-\$0.58

Equity Markets	6/18/10	1-Wk Chg	4-Wk Chg	YTD
S&P 500	1,117.51	2.37%	2.74%	0.22%
FTSE 100	5,250.84	1.69%	3.71%	-2.99%
DAX	6,216.98	2.80%	6.65%	4.36%
S&P/TSX Comp	11,927.59	2.23%	3.53%	1.55%
NIKKEI	9,995.02	2.99%	2.15%	-5.23%

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