

FinSer

Weekly Financial Focus

Sep. 6 - 10, 2010

Last Week! It was a tale of two markets last week. Monday and Tuesday saw stocks leak lower, pushing the Dow back under the 10,000 level. Treasury yields also fell the first two days of the week, the last two days of the month, as foreign investors bought on weakness from the previous Friday, and domestic investors were buying for month-end purposes, re-investing coupon and maturing principal payments and/or moving into bonds to avoid the risks associated with declining stocks. Market psychology and action changed for the remainder of the week on Wednesday with the beginning of a series of economic reports that surprised to the upside (ISM manufacturing Index, Consumer Confidence Index and pending home sales) or proved to be not as weak as expected (August's jobs report). The general take away was that the economy had shifted to a lower gear, but not into reverse. To be sure there were and remain skeptics about the reports, such as the ISM manufacturing report running counter to regional manufacturing surveys and the ISM non-manufacturing report and the degree of upside revisions (+123,000) to July's and June's job tally. The August report revealed a loss of 54,000 jobs (versus an expected net loss of approximately 100,000) as a decline of 110,000 public jobs offset a gain of 67,000 in the private sector.

After stumbling early in the week, equities posted decent gains for the period; the S&P and the Nasdaq advancing by 3.7%, as the Dow trailed with a 2.8% gain. The Treasury yield continued to twist last week, becoming steeper as short-to-intermediate maturities moved slightly lower in yields, while yields climbed marginally higher. The short-end continues to be anchored by the Fed, which collectively still sees downside risks to the economy, but are divided on what to do about it, according to the minutes of the August 10th meeting released last week. In other markets, broad commodity price indices moved higher, tracking stocks higher. Leaders in the commodity price rise were grains and industrial metals. Energy prices fell slightly during the week. Commodities may have been aided by a slight cheapening of the dollar against major trading partner currencies.

This Week! After a full calendar last week, this week's calendar is ultra-light. The key economic release will be the Fed Beige Book. This report is a compilation of anecdotal evidence of economic activity (or lack of) in the various Fed Districts. It is released two weeks prior to an FOMC meeting for use by Fed officials. It is expected to summarize activity as continuing to be uneven. The remaining economic reports are likely to get only a passing notice, but Treasury supply should capture the bond market's attention.

Monday	Labor Day Holiday
Tuesday	Auction: 3-year T-note
Wednesday	Auction: 10-year T-note Fed Beige Book Consumer Credit
Thursday	Weekly Jobless Claims Trade Balance
Friday	Auction: 30-year T-bond Wholesale Inventories

Market Rates / Levels

GENERAL	Sep. 3, 2010	6 Months Prior	12 Months Prior
FED FUNDS	0 to 0.25%	0 to 0.25%	0 to 0.25%
PRIME	3.25%	3.25%	3.25%
1 MONTH LIBOR	0.25781%	0.22906%	0.25375%
DOW INDUSTRIAL	10447.93	10566.20	9441.27
S&P 500	1104.50	1138.70	1016.40
NASDAQ 100	1870.31	1887.56	1638.07
CRB	272.77	276.93	257.58
YEN	84.42	90.32	92.99
EURO	1.2896	1.3620	1.4304
GOLD	1247.07	1131.85	994.57
WEST TEXAS CRUDE	74.35	81.76	67.78

TREASURIES	Yield	Yield	Yield
3 MONTH	0.12	0.14	0.12
6 MONTH	0.17	0.19	0.21
1 YEAR	0.22	0.32	0.40
2 YEAR	0.51	0.89	0.92
5 YEAR	1.48	2.33	2.35
10 YEAR	2.70	3.67	3.43
30 YEAR	3.79	4.63	4.26