Market Comment *Economic Highlights for the week ended January 15, 2010*

Economic Week In Review: Slow But Steady Growth

Vanguard 1/15 - Another week brought more mixed news about the U.S. economy. The Federal Reserve's most recent Beige Book showed continued signs of economic growth, while many businesses increased their inventories, signaling an expected pickup in sales. Consumer prices continued to rise slowly, but inflation remains in check. Meanwhile, December's retail sales were less than expected, despite a relatively good holiday shopping season. For the week, the S&P 500 Index dropped 0.8% to 1,136, while the yield of the 10-year U.S. Treasury note fell 13 basis points to 3.70%.

The Fed Beige Book Shows Continued Improvement

Vanguard 1/15 - The Federal Reserve's latest Beige Book reported continued progress in regional economic performance, with 10 of its 12 regions reporting improvements. The other two districts—Philadelphia and Richmond, Virginia—reported mixed conditions. Eight of the 12 districts reported weak but better-than-expected holiday sales. The report also showed improvements in manufacturing and some service sectors. The housing, credit, and job markets remain weak across the board.

Econoday 1/14 - Today's Beige Book report from the Fed found the recovery slowly spreading, noting "while economic activity remains at a low level, conditions have improved modestly further, and those improvements are broader geographically than in the last report." This reflects incremental improvement from language in the last report that said "economic conditions have generally improved modestly since the last report." The Beige Book is a compilation of anecdotal reports from District Fed Banks based on information collected on or before January 4, 2010 in preparation for the upcoming FOMC meeting on January 26-27.

Regarding retail sales, reports indicated that the 2009 holiday season "was slightly greater than in 2008, but still far below 2007 levels." Manufacturing is up in half of the twelve Fed Districts, mixed in three, and weak in three. However, in general, manufacturers are more optimistic about growth prospects in coming months. Home sales are up in most regions with gains largely in low end sales. Nonresidential real estate conditions remained soft in nearly all Districts.

A key area of concern is finance as loan demand continued to decline or remained weak in most Districts. A number of Districts reported that credit quality continued to deteriorate with commercial loan delinquencies a rising concern.

Labor market conditions remained soft in most Federal Reserve Districts while wage pressures remained subdued in most Federal Reserve Districts. Price pressures remained subdued outside of some metals.

Overall, today's Beige Book shows the recovery continuing at a slow pace. But there are still risks-notably in credit markets, especially for commercial real estate lending with consumer debt still a concern. There is no reason to see the recovery picking up much steam in the near term. With inflation subdued, the Fed is likely to maintain its currently very loose stance.

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

Beige Book Excerpts 1/13 - Retail inventory levels remain very lean in nearly all Districts. Auto sales held steady or increased slightly since the last Beige Book in most Districts. Reports on tourism were mostly flat or weak, but for two Districts whose ski resorts enjoyed early season snowstorms.

Manufacturing activity has increased or held steady since the last report in most Districts. Among Districts reporting on near-term expectations, the manufacturing outlook was optimistic, but spending plans remain cautious.

Toward the end of 2009, home sales increased in most Districts, especially for lower-priced homes. Home prices appeared to have changed little since the last Beige Book, and residential construction remained at low levels in most Districts. Commercial real estate was still weak in nearly all Districts with rising vacancy rates and falling rents. Since the last report, loan demand continued to decline or remained weak in most Districts, while credit quality continued to deteriorate.

Cold weather at the end of the year adversely affected some late crops and stressed livestock, but above-average yields for early crops were reported by some Districts.

Price pressures remained subdued in nearly all Districts, though increases in metals prices were reported and agricultural prices have been mixed.

Retail Sales: December's Retail Sales Disappoint

Vanguard 1/15 - Although consumers spent more this holiday season than expected, holiday sales did little to boost December's retail sales numbers. Total sales were down 0.3% for the month, while analysts had anticipated an increase of 0.5%.

"The weak retail sales release for December is consistent with consensus expectations that the consumer will make a weak comeback in 2010," Vanguard economist Roger Aliaga-Diaz said. "Bad news on the labor market front, plus the prospect of a fading fiscal stimulus, are negatively affecting consumer sentiment and ultimately, the spending decisions being made by families."

Still, given last year's extremely weak economy, sales rose 5.4% from last December. Performance varied across sectors, with sporting goods, hobby stores, gas stations, and drug stores showing strong gains. Meanwhile, electronics and appliance retailers saw the sharpest declines.

Econoday 1/14 - The December drop in overall sales was led by a 0.8% fall in motor vehicle sales (a relatively large component) and electronics & appliance stores, down 2.6%. Declines in December were broad based. However, gasoline station sales were up 1.0% after a huge 9.6% surge in November.

Overall retail sales on a year-ago basis in December increased to up 5.4%, from up 2.5% in November.

ADVANCE MONTHLY SALES FOR RETAIL AND FOOD SERVICES - December 2009

Press Release 1/14 (excerpts) - The U.S. Census Bureau announced today that advance estimates of U.S. retail and food services sales for December, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $353.0 billion, a decrease of 0.3% (±0.5%) from the previous month, but 5.4% (±0.5%) above December 2008. Total sales for the 12 months of 2009 were down 6.2% (±0.2%) from 2008. Total sales for the October through December 2009 period were up 1.9% (±0.3%) from the same period a year ago. The October to November 2009% change was revised from +1.3% (±0.5%) to +1.8% (±0.2%).

Gasoline stations sales were up 33.6% (±1.5%) from December 2008 and non-store retailers sales were up 10.3% (±1.7%) from last year.

Consumer Price Index – December 2009 - Consumer Prices Are Slowly On The Rise

Vanguard 1/15 - The Consumer Price Index (CPI)—the government's key inflation indicator—was up 0.1% in December, after rising 0.4% in November. Prices rose 2.7% overall in 2009, compared with only a 0.1% rise in 2008. The increase was due mostly to the nation's higher gas prices, which rose more than 50% from 2008 to 2009.

The core CPI—which excludes food and energy prices, both of which can be very volatile—also rose 0.1% for the month. <u>This small increase signals that inflation remains under control</u>.

Econoday 1/15 - The Fed got its wish with the December CPI-inflation is subdued. Weakness in the CPI was largely in the housing component and especially the shelter subcomponent which was flat and reflected the weak housing market and high vacancy rates in apartments.

Food and energy components were up in the latest month but at a relatively moderate pace for both. Energy rose only 0.2% after a 4.1% surge in November. Food inflation firmed to 0.2% from a 0.1% rise in November.

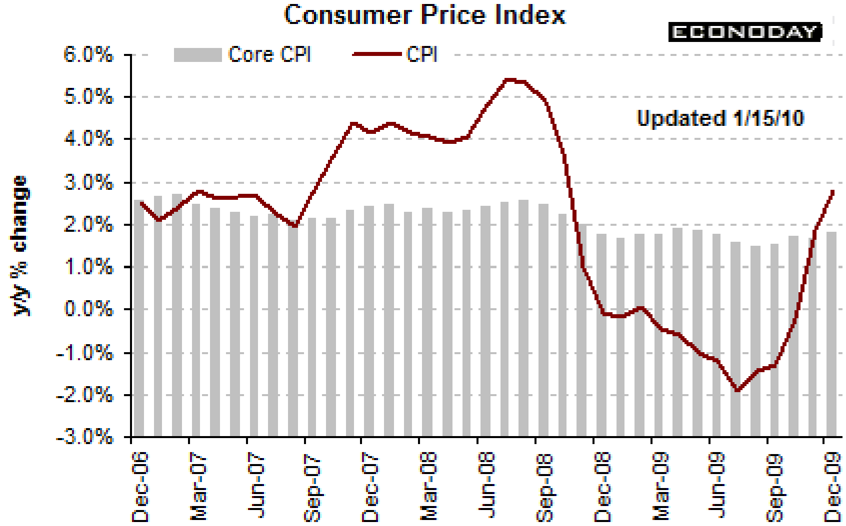
Overall, lingering effects of the recession (including a sluggish consumer sector and very weak housing sector) are keeping inflation subdued. Outside of possible gains in food (freeze related) and energy costs (higher crude oil prices), this is likely to continue in coming months.

Note: Yearly changes tend to smooth out more severe monthly fluctuations and give a better idea of the underlying rate of inflation. Even with the smoother trend, note that the core CPI does not fluctuate as much as the total CPI (see CPI graph on next page).

CONSUMER PRICE INDEX – DECEMBER 2009

Press Release 1/15 (excerpts) - On a seasonally adjusted basis, the December Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1%, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the index increased 2.7% before seasonal adjustment.

The seasonally adjusted increase in the all items index was broad based, with the indexes for food, energy, and all items less food and energy all posting modest increases. Within the latter group, a sharp rise in the index for used cars and trucks was the largest contributor to the 0.1% increase, while the indexes for airline fares, apparel, and lodging away from home rose as well. In contrast, the indexes for rent and owners' equivalent rent were unchanged and the index for new vehicles declined.



Grocery store food indexes showed broad-based increases, leading to the food index rising 0.2%, its largest one-month advance in over a year. The energy index also rose 0.2%; this was its smallest increase in five months. The indexes for fuel oil and gasoline rose, but the electricity index was unchanged and the natural gas index declined.

CPI: Year in Review

Press Release 1/15 (excerpts) - For the 12 month period ending December 2009, the CPI-U rose 2.7%, compared to 0.1% for 2008. The larger increase was primarily due to the energy index, which rose 18.2% during 2009 after falling 21.3% in 2008. The food index, which rose 5.9% in 2008, fell 0.5% for the 12 months ending December 2009, the first December-to-December decline since 1961. The index for food away from home rose 1.9% while the food at home index fell 2.4%. Within food at home, all six major grocery food groups posted declines in 2009 after rising in 2008. The dairy and related products group declined the most, falling 7.6%, its largest annual decline since 1938.

The index for all items less food and energy rose 1.8% during 2009, the same increase as in 2008. This identical increase was the result of offsetting factors.

U.S. Trade Deficit Grows - November

Vanguard 1/15 - The U.S. trade gap widened in November to $36.4 billion, up from $33.2 billion in October. Imports, which were led by crude oil sales, increased 2.6% for the month, while exports rose 0.9%. The good news is that the deficit increase stems from higher trading volumes—a favorable sign of economic growth both in the United States and among our major trading partners.

Import and Export Prices - December

Econoday 1/14 - Headline import prices were unchanged in December masking yet another significant rise in non-petroleum import prices, which rose 0.5% following a 0.6% gain in November and a 0.5% gain in October. Pressure appears in the industrial supplies ex-petroleum component which surged 2.2% vs. plus 2.8% and plus 2.2% in the prior two months. Foods, feeds & beverages also show pressure, up 0.9% for a second month in a row. But the pressure -- and this is key -- is yet to show up in final goods where import prices for consumer goods were unchanged and capital goods were up only 0.1%.

On the export side, prices rose 0.6% on top of a 0.9% jump in November. Here the pressure is centered in agricultural prices which jumped 2.0% following November's 4.0% surge. Note though that two days of extreme price erosion for agricultural commodities, due to Tuesday's quarterly USDA report that shows much greater than expected output, points to a big easing in agricultural export prices for January. Export prices of finished goods, like on the import side, show no pressure, unchanged for both consumer and capital goods.

Imported inflation, largely the result of the weak dollar, is a significant but still latent risk for economic policy. Until this pressure begins to emerge in finished prices, the outlook for a long spell of zero interest rates for Fed policy will remain intact.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Jan. 9

Press Release 1/14 (excerpts) – In the week ending Jan. 9, the advance figure for seasonally adjusted initial claims was 444,000, an increase of 11,000 from the previous week's revised figure of 433,000. The 4-week moving average was 440,750, a decrease of 9,000 from the previous week's revised average of 449,750.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Jan. 2, a decrease of 0.1 percentage point from the prior week's unrevised rate of 3.6%.

The advance number for seasonally adjusted insured unemployment during the week ending Jan. 2 was 4,596,000, a decrease of 211,000 from the preceding week's revised level of 4,807,000. The 4-week moving average was 4,855,000, a decrease of 151,500 from the preceding week's revised average of 5,006,500.

WEEK ENDING	Advance Jan. 9	Jan. 2	Change	Dec. 26	Prior Year
Initial Claims (SA)	444,000	433,000	+11,000	432,000	535,000
4-Wk Moving Average (SA)	440,750	449,750	-9,000	460,250	523,750

Econoday 1/14 - The four-week average has declined for 19 straight weeks in what is an extremely powerful indication of improvement in the labor market.

Businesses cautiously rebuild inventories

Vanguard 1/15 - Total business inventories increased 0.4% in November. This was the second consecutive monthly gain. Inventories hadn't previously risen since August 2008. The rise in inventories indicates that businesses are slowly and steadily rebuilding their surpluses of goods, because they expect sales to pick up. Wholesalers increased inventories the most in November, while manufacturers also stockpiled supplies. Meanwhile, retailers cut their inventories by 0.2%.

Industrial Production & Capacity Utilization: Utility Output Spikes As Temperatures Drop

Press Release 1/15 - Industrial production increased 0.6% in December. The gain primarily resulted from an increase of 5.9% in electric and gas utilities due to unseasonably cold weather. Manufacturing production edged down 0.1%, while the output of mines rose 0.2%. The change in the overall index was revised up in October, but it was revised down in November; for the fourth quarter as a whole, total industrial production increased at an annual rate of 7.0%. At 100.3% of its 2002 average, output in December was 2.0% below its year-earlier level. Capacity utilization for total industry edged up to 72.0% in December, a rate 8.9 percentage points below its average for the period from 1972 to 2008.

BofA 1/19 - Industries that posted notable gains in December included high-tech, chemicals, metals and machinery goods. Our expectation that businesses begin to restock in 2Q2010 suggests renewed growth in manufacturers' orders and output – a recipe for acceleration throughout the manufacturing sector. In this scenario, additional hiring will also be necessary to meet demand.

Overall capacity utilization rose 0.5ppts month-over-month to 72.0% in December. While an improvement versus June's all-time low of 68.3%, capacity is still running well below the 2006-2007 average of 80.5%. Factory usage in the auto industry barely budged from November, at 52.1% in December, and is still a whopping 18ppts below its longer-term average. This slow-moving recovery in utilization continues to reflect an enormous amount of slack throughout the sector that alone is very deflationary in nature.

Econoday 1/15 - Basically, we got a weather report for December. Utilities output spiked 5.9% in December on atypically cold weather while mining output rose 0.2%. Resource utilization is still low in the industrial sector but rising.

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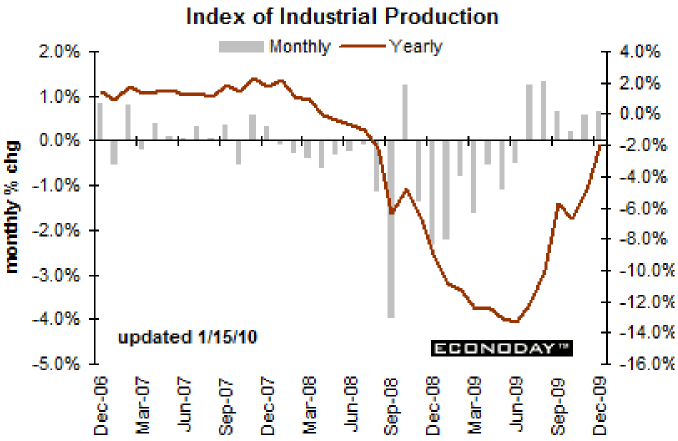
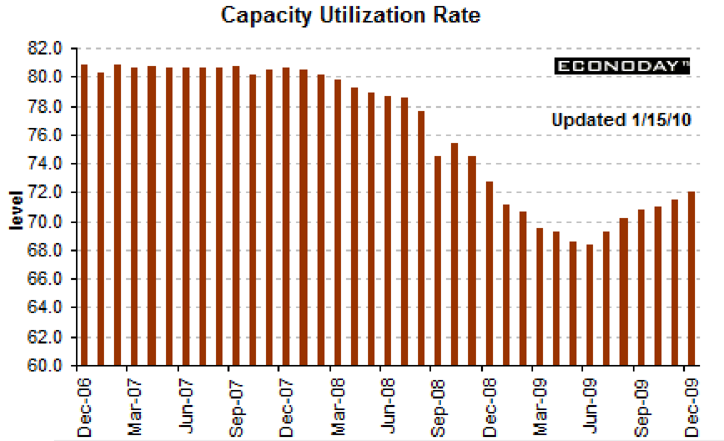


The industrial sector accounts for less than 20 percent of GDP. Yet, it creates much of the cyclical variability in the economy.



The capacity utilization rate reflects the limits to operating the nation's factories, mines and utilities. In the past, supply bottlenecks created inflationary pressures as the utilization rate hit 84 to 85 percent.

Reuters/University of Michigan's Consumer Sentiment Index – mid-January 2010

Econoday 1/15 - Consumer spirits are not improving, offering a confirmation of weakness in the labor market and an explanation for weakness in consumer spending. Reuters/University of Michigan's consumer sentiment index was little changed in the mid-January reading, at 72.8 vs. December's final 72.5. The index has held in a very narrow and depressed range in recent months, from a low of 66.0 in mid-November to a high of 73.5 in final September. The expectations component, the report's leading component, has held in a similar range, falling 1.4 points in the latest reading to 67.5. This indicates wide pessimism over the economic outlook. The current conditions component, at 81.0, did improve but not substantially though the latest reading does push out the high end of the trend and potentially hints at marginal economic improvement for January. Inflation expectations are quiet though they did move slightly higher to 2.8% for both one year and five years out. Equities moved lower following the report.

Note: Consumer sentiment is mainly affected by inflation and employment conditions. However, consumers are also impacted by current events such as bear & bull markets, geopolitical events such as war and terrorist attacks. Investors monitor consumer sentiment because it tends to have an impact on consumer spending over the long run (although not necessarily on a monthly basis.)

BofA 1/19 - Looking under the surface, this was a weak report considering we are over six months into a recovery. The homebuying conditions index dropped for the third consecutive month to a six-month low of 148 in January from 151 in December. This raises concerns over the housing market recovery we expect to unfold in coming quarters. Income expectations are down sharply. The index measuring expected changes in family income plunged to 110 in January from 124 in December – tying the record low.

GSE Bond Market: New Farm Credit Designated Bond

Announcement 1/10 – Funding Corporation priced a new, $1.4 billion, 3-year maturity, non-callable Designated Bond issue on Monday, Jan. 11. The coupon rate was 1.75%. The price to investors was 99.737% of par to yield 1.838%. The spread to Treasury was reported as +33.5 bps vs. T 1.125% 12/15/2012. The concession was $0.75/$1,000 producing an all-in cost of 1.863%. System Banks swapped the majority of the issue to receive fixed and pay floating indexed to LIBOR.

For comparison, Fannie Mae priced a $4.5 billion, 3-year Benchmark Note on Thursday, Jan. 14. The Fannie Mae issue also has a 1.75% coupon rate and was priced at 99.856% of par to yield 1.798%. Fannie Mae reported the pricing spread as +29.5 basis points versus the 1.375% 01/15/2013 U.S. Treasury note.

S&P Cuts California Debt Rating

WSJ 1/14 – Standard & Poor's lowered California's debt rating Wednesday, putting pressure on Gov. Arnold Schwarzenegger and lawmakers to start tackling the state's $20 billion deficit. S&P lowered its rating on California's $64 billion general-obligation debt one step, from "A" to "A-." It also dropped $9.4 billion in lease-revenue bonds three notches, from "A-" to "BBB-." California had the lowest general-obligation rating of any state when S&P dropped it from "A+" to "A" in February.

The Economic Week Ahead: January 18 – January 22

Vanguard 1/15 - Next week's economic news will include the most recent updates on the producer price index and new residential construction, both due out on Wednesday. The Conference Board's index of leading economic indicators will be released on Thursday.

BofA 1/19 - Ahead of the January 26-27th FOMC meeting, there are no Fed speakers scheduled. However, investors will be watching for the Senate to schedule a date for Bernanke's confirmation vote, particularly as we near the end of his term as Chairman on January 31st.

This Week's U.S. Economic Calendar

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jan 20	08:30	Building Permits	December	590K	580K	584K
Jan 20	08:30	Housing Starts	December	545K	575K	574K
Jan 20	08:30	Core PPI	December	0.1%	0.1%	0.5%
Jan 20	08:30	PPI	December	0.0%	0.0%	1.8%
Jan 21	08:30	Initial Claims	1/16	457K	440K	444K
Jan 21	08:30	Continuing Claims	1/09	4495K	4600K	4596K
Jan 21	10:00	Leading Indicators	December	0.5%	0.7%	0.9%
Jan 21	10:00	Philadelphia Fed	January	15.7	18.8	20.4

Source: Briefing.com

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
18-Dec	$ 6,135	$ 2,343	15	$ 653	6
25-Dec	6,080	862	12	195	3
1-Jan	6,775	490	7	694	4
8-Jan	11,855	2,836	25	605	6
15-Jan	9,060	2,380	13	848	6