

Market Comment *Economic Highlights for the week ended January 20, 2012*

Economic Week In Review: Chugging Along As Inflation Eases

Vanguard 1/20 - The economy continues its modest forward pace, without stoking higher inflation. In fact, this week's data show price increases decelerating, easing fears for the moment that the Fed's accommodative monetary policies are sowing the seeds of high inflation down the road. For the week ended January 20, the S&P 500 Index rose 2.0% to 1,315.38 (for a year-to-date total return—including price change plus dividends—of about +4.7%). The yield on the 10-year U.S. Treasury note rose 16 basis points to 2.05% (for a year-to-date increase of 16 basis points).

Existing Home Sales - December: US Existing Home Sales Continue To Trend Higher

Vanguard 1/20 - As expected, existing-home sales continued their slow rebound, increasing 5.0% in December to an annualized 4.61 million units. Fourth-quarter sales overall were strong, and the market finished out the year with 3 consecutive months of gains, resulting in a final yearly increase for 2011 of 1.7%.

"The pattern of home sales in recent months demonstrates a market in recovery," said Lawrence Yun, chief economist at the National Association of Realtors. "Record low mortgage interest rates, job growth, and bargain home prices are giving more consumers the confidence they need to enter the market."

Total housing inventory dropped 9.2% to 2.38 million existing homes for sale, the lowest number since March 2005. That figure, representing a 6.2-month supply at the current sales pace, is down from a 7.2-month supply in November, reflecting the typical shrinkage of inventory in the winter. Home prices remain the major weak spot, with the median price declining 2.5% from its level at the end of 2010.

Econoday 1/20 – Low mortgage rates and low prices are doing the trick for the housing sector where sales are up and, for the first time in a long time, supply is coming down.

Prices have been coming down the last six months but December's sales strength gave sellers the edge with the median price rising 2.3% to \$164,500. The year-on-year rate is still in the single digit negative area, at minus 2.5%.

Cash transactions are up in the month, at 31% vs. 28% in November, with one third of all contracts ending in failure. The housing market may still be bumpy but it is definitely moving in the right direction.

Barclays 1/20 - The rise was driven by both single-family units, which were up 4.6%, to 4.11m units, and condos/co-ops, which increased 8.7% to 0.5m units. Geographically, sales increased in all four regions, as sales in the Midwest (8.3%), South (2.9%), West (2.6%) and Northeast (10.7%) all increased. The housing market appears to making progress in terms of working through its excess inventory. We view the report as mostly positive and reflecting a housing market that is beginning to show meaningful signs of healing.

Housing Starts - December: Housing Starts Off, But Underlying Trends Remain In Place

Barclays 1/19 - US housing starts fell 4.1% m/m to 657k in December from 685k in November, well below what we (695k) and the market (680k) were expecting. The decline was driven by a large 20.4% drop in multi-family starts to 187k, which is a full retracement of the 23.0% rise in the series the previous month. Nevertheless, multi-family starts are 78% above their year-ago levels and continue to be buoyed by a strong rental market and ongoing processing of foreclosed and delinquent properties. Underneath the decline in the headline was also a 4.4% m/m rise in single-family starts to 470k from 450k a month earlier. Single-family starts at 470k is the highest level of start activity seen since April 2010, when the housing market was boosted by government stimulus, and leaves single family starts 12% above year-ago levels.



Building permits were flat on the month, holding at 679k versus 680k in November, suggesting that some of the recent strength in start activity could be maintained in the coming months.

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We continue to see residential investment as making a small positive contribution to Q4 GDP growth and believe housing will not pose a drag on the recovery as it has in the past.

Econoday 1/19 – Homebuilders remain modestly optimistic. Given that November was unexpectedly strong, the December dip in starts still reflects a recent and modest uptrend.

Producer Price Index - December: Upside Surprise On Core PPI

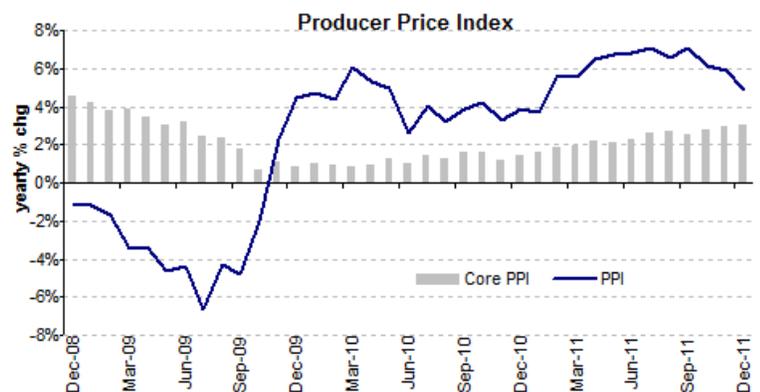
Vanguard 1/20 - Looking at the annual pace of change, the CPI registered a 3.0% gain over 12 months—the slowest yearly pace since last March—while the PPI was up 4.8%, the lowest reading in nearly a year.

Econoday 1/18 – At the producer level in December, inflation was tugged down by gasoline and food costs but the core was warmer than expected. Producer prices edged down 0.1% after rebounding 0.3% the prior month. The latest number posted lower than market expectations for no change.

By major components, energy declined 0.8%, after nudging up 0.1% in November. Within energy, gasoline fell 2.3%, following a 0.1% dip in November. Food cost inflation eased to a 0.8% decline after jumping 1.0% the month before.

At the core level, the PPI firmed 0.3% after rising a modest 0.1% in November. A big part of this acceleration was due to reduced discounting for motor vehicles by dealers. Leading the core up were passenger cars, light trucks, pharmaceuticals, and tobacco.

For the overall PPI, the year-ago rate in December was 4.8%, compared to 5.9% in November (seasonally adjusted). The core rate in December edged up to 3.0% from 2.9% the month before.



Press Release 1/18 (excerpts) - The Producer Price Index for finished goods declined 0.1 percent in December, seasonally adjusted, the U.S. Bureau of Labor Statistics reported today. Prices for finished goods moved up 0.3% in November and fell 0.3% in October. At the earlier stages of processing, the index for intermediate goods decreased 0.5% in December, and crude goods prices moved down 1.1%. On an unadjusted basis, the index for finished goods increased 4.8% in 2011 after rising 3.8% in 2010.

Consumer Price Index - December: Gradual Upward Trend In Core Inflation To Persist

Press Release 1/19 - The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in December on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 3.0% before seasonal adjustment.

Similar to last month, the energy index declined in December and offset increases in other indexes. The gasoline index declined for the third month in a row and the household energy index declined as well.

The food index rose in December, with the index for food at home turning up after declining last month. The index for all items less food and energy increased 0.1% in December after rising 0.2% in November. The indexes for shelter, recreation, medical care, and tobacco all posted increases, while the indexes for used cars and trucks, new vehicles, and apparel all declined.

The all items index has risen 3.0% over the last 12 months, a decline from last month's 3.4% figure. Recent declines in the energy index have brought its 12-month change down to 6.6% from 19.3% in September. The 12-month change in the index for all items less food and energy held at 2.2%, while the 12-month change in the food index edged up from 4.6% to 4.7%.

Vanguard 1/20 - Price reports continue to suggest that the threat of rising inflation has been dampened

Econoday 1/19 – Consumer price inflation was nonexistent in December at the headline and core levels. By major components, energy dipped 1.3% after declining 1.6% in November. Gasoline fell 2.0%, following a 2.4% decline in November. Food price inflation firmed to 0.2% after rising 0.1% the prior month.

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The latest CPI report continues to give the Fed leeway for continued loose monetary policy. Year-ago rates are above the implicit Fed target range for inflation but on the margin, they are coming down as some Fed officials have predicted.

Industrial Production And Capacity Utilization - December: Broad-Based Rebound

Press Release 1/18 - Industrial production increased 0.4% in December after having fallen 0.3% in November. For the fourth quarter as a whole, industrial production rose at an annual rate of 3.1%, its 10th consecutive quarterly gain. In the manufacturing sector, output advanced 0.9% in December with similarly sized gains for both durables and non-durables. The output of utilities fell 2.7%, as unseasonably warm weather reduced the demand for heating; the output of mines moved up 0.3%. At 95.3% of its 2007 average, total industrial production in December was 2.9% above its level of a year earlier. The capacity utilization rate for total industry rose to 78.1%, a rate 2.3 percentage points below its long-run (1972--2010) average.

Barclays 1/18 - The upside surprise partly reflected the vehicles component, which rose 0.3% (based on production schedules data, we expected a decline). However, the rebound relative to November was broad based as well. By market group, there were gains across consumer goods (0.2%), business equipment (0.8%), and materials (0.6%). By industry group, both durable and non-durable components rose, the former by 0.9% (following a 0.1% decline in November) and the latter by 0.8% (following a 0.6% drop in November).

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Jan 14

Press Release 1/5 (excerpts) - In the week ending January 14, the advance figure for seasonally adjusted initial claims was 352,000, a decrease of 50,000 from the previous week's revised figure of 402,000. The 4-week moving average was 379,000, a decrease of 3,500 from the previous week's revised average of 382,500.

WEEK ENDING	Jan 14	Jan 7	Change	Dec 31	Prior Year
Initial Claims (SA)	352,000	402,000	-50,000	375,000	415,000
4-Wk Moving Average (SA)	379,000	382,500	-3,500	374,000	418,500

Econoday 1/19 – A very large weekly drop in initial jobless claims offers a splashy, but not definitive, indication of rising strength in the jobs market. Initial claims fell 50,000 in the January 14 week to 352,000 for the biggest drop since September 2005 when economic expansion was in full gear (prior week revised to 402,000). But weekly data early in the year are often choppy, the result of shortened holiday weeks. The 4-week average, down 3,500, points to less strength with the level of 379,000 not convincingly lower than the mid-December level of 380,750.

Barclays 1/19 - The Department of Labor indicated no special factor affected this week's estimates. Although seasonal fluctuations induce volatility into the data this time of year, the resumption of the downward trend in the 4-week average of initial claims suggests to us the labor market is gaining momentum as the pace of layoffs slows.

Empire State Index - January: Upward Trend In US Empire State Survey Continues In January

Econoday 1/17 – Manufacturing activity in the New York region is picking up nicely so far this month with growth back at a healthy hum. The Empire State index rose more than 5 points to 13.48 with the 6-month outlook up nearly 10 points to 54.87. Levels, after sinking in an 8-month hole, are now back where they were during the first half of last year. Details show strength in new orders and, in a stand out result, strength in employment.

Barclays 1/17 - Today's report continues the recent positive trend across a range of national and regional manufacturing surveys.

Home Builders' Sentiment - January: Sentiment Rises To Highest Level Since June 2007

Barclays 1/18 - The National Association of Home Builders (NAHB) sentiment index rose to 25 in January from 21 in December, above our and consensus estimates (22). The January reading represents the fourth consecutive monthly increase and at 25, the index now stands at its highest level since June 2007.

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While the absolute level of the home builder index remains low by historical standards, the improvement since September is encouraging and has mirrored the acceleration in housing start and building permit activity in the multi-family sector. Overall, we see the rise in the NAHB index as another piece of evidence to suggest that housing will not be a drag on the recovery as it was in the two years after the official end of the recession in mid-2009.

The Economic Week Ahead: Jan 23– Jan 27, 2012

Vanguard 1/20 - The Federal Reserve's policymaking committee will meet and issue an update on its monetary stance on Wednesday. New-home sales, durable-goods orders, and leading economic indicators will be updated Thursday. On Friday, the first reading of 4th-quarter gross domestic product will be announced.

This Week's U.S. Economic Calendar

Source: MarketWatch

RELEASE DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, JAN. 23		None Scheduled			
TUESDAY, JAN. 24	10 am	Richmond Fed Index	January	--	3
WEDNESDAY, JAN. 25	10 am	FHFA Home Prices	November	--	-0.2%
	12:30 pm	FOMC Announcement			
	2:15 pm	Bernanke Press Conference			
THURSDAY, JAN. 26	8:30 a.m.	Jobless Claims	1-21	373,000	352,000
	8:30 am	Durable Goods Orders	December	2.5%	3.7%
	8:30 am	Leading Indicators	December	1.0%	0.5%
	10 am	New Home Sales	December	328,000	315,000
FRIDAY, JAN. 27	8:30 am	GDP	4Q	3.0%	1.8%
	9:55 am	Consumer Sentiment	January	74.5	74.0

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
23-Dec	\$ 4,200	\$ 1,504	17	\$ 884	6
30-Dec	4,890	511	6	114	1
6-Jan	6,635	3,163	25	1,698	15
13-Jan	4,560	3,100	36	1,710	19
20-Jan	2,785	4,083	32	3,331	23