Market Comment *Economic Highlights for the week ended February 5, 2010*

Economic Week In Review: Stocks Down For The Week Despite Drop In Jobless Rate

Vanguard 2/5 - Despite a late market rally on Friday, stocks continued their recent slide, falling for the week amid increasing uncertainty over the direction of the U.S. economy. The stock market's poor performance came despite a surprising drop in the unemployment rate, which fell below 10% for the first time since September. Other economic news was more mixed. Personal incomes rose while wage growth stalled. Despite the drop in the jobless rate, nonfarm payrolls fell while construction spending remained sluggish. On a positive note, the manufacturing sector continued to recover, with factory orders rising at a faster-than-expected rate. For the week, the S&P 500 fell 0.7% to 1066.18 (for a year-to-date total return of about –4.3%). The yield of the 10-year U.S. Treasury note fell 4 basis points to 3.59% (for a year-to-date loss of 26 basis points).

Challenger Job-Cut Report - January

Econoday 2/3 - Challenger's count of layoff announcements jumped to 71,482 in January, the worst result since August and well above December's 45,094. Cuts in the retail sector, both in seasonal and regular jobs, were the central factor behind January's increase. In an offset, overall hiring intentions held solid, at 31,381 vs. December's 35,592. Challenger's data are difficult to use as an indication for monthly payrolls. The data are unadjusted and company announcements don't immediately equate to actual job actions.

ADP Employment Report

Econoday 2/3 - ADP private payroll count for January fell 22,000, a result that will likely edge expectations lower for Friday's employment report where expectations are centered at no change for non-farm employment.

Non-Farm Payrolls – January: Unemployment Dips Below 10%

Vanguard 2/5 - Despite a modest drop in nonfarm payrolls of 20,000, the U.S. unemployment rate fell 0.3 percentage point to 9.7% in January. According to Vanguard economist Roger Aliaga-Diaz, the surprising drop in the unemployment rate despite the negative payroll number can be explained by a technicality concerning the collection of employment data. Payroll reports and unemployment rate numbers are derived from two different surveys and do not always match perfectly.

Sectors contributing to the payroll decline include construction and government, which shed 75,000 and 8,000 jobs, respectively. On a positive note, services added 48,000 positions and manufacturing contributed 11,000 new jobs, its first monthly increase since January 2007.

Mr. Aliaga-Diaz indicated that it is too early to tell whether the unemployment rate has already peaked despite positive trends in the labor market. "There is still a considerably large pool of discouraged workers that may decide to start searching for jobs later this year," he said. "Depending on how fast this process takes place relative to the rate of job creation in the economy, we could see the unemployment rate inch higher."

Press Release 2/5 - THE EMPLOYMENT SITUATION – JANUARY 2010

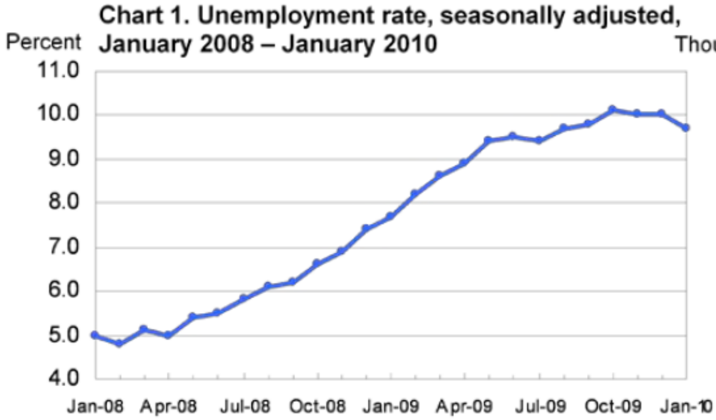
The unemployment rate fell from 10.0 to 9.7% in January, and nonfarm payroll employment was essentially unchanged (-20,000), the U.S. Bureau of Labor Statistics reported today. Employment fell in construction and in transportation and warehousing, while temporary help services and retail trade added jobs.

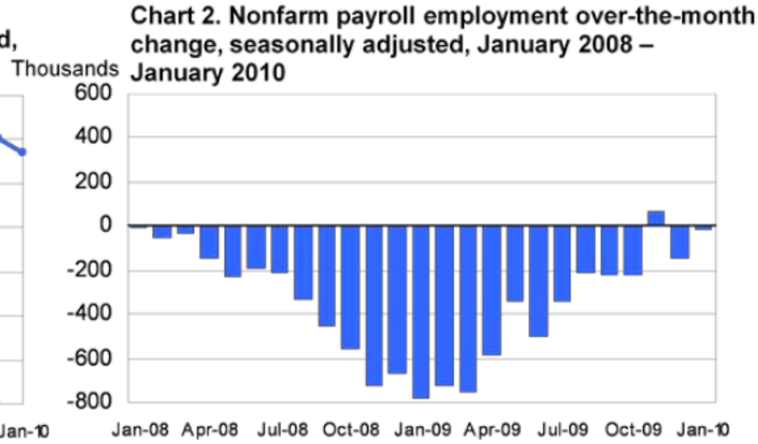
In January, the number of unemployed persons decreased to 14.8 million, and the unemployment rate fell by 0.3 percentage point to 9.7%.

The number of long-term unemployed (those jobless for 27 weeks and over) continued to trend up in January, reaching 6.3 million. Since the start of the recession in December 2007, the number of long-term unemployed has risen by 5.0 million. The civilian labor force participation rate was little changed at 64.7%.

In January, the federal government added 33,000 jobs, including 9,000 temporary positions for Census 2010. Employment in state and local governments, excluding education, continued to trend down.

Since the start of the recession in December 2007, payroll employment has fallen by 8.4 million. Over the last 3 months, however, employment has shown little net change.





Economists React: Jobs Report Has More Good Than Bad (excerpts)

WSJ 2/5 - We judge there is more good news than bad news in this report and we think labor market trends remain on track to show the emergence of job creation in the first quarter. The average job loss over the last three months is only 35,000 (the smallest since March 2008) and hours worked increased 0.2% (the equivalent of creating over 230,000 private-sector jobs). *–RDQ Economics*

More problematic is the continued surge in temporary hiring. A leading indicator in the past, this category has become a leading employer instead. Firms are willing to take on workers but not at the expense of benefits on the way in or severance on the way out. *–Steven Blitz, Majestic Research*

The big truth of today's report is not that the job market improved, which it did not. The big truth is that with downward revisions to previous employment reports, there were more jobs lost than had previously estimated. *–Jason Schenker, Prestige Economics*

Following the huge downward revision of the payroll numbers between April 2008 and December 2009, U.S. employment has declined by 8.4 million (or 6.1%) during the start of the recession in December 2007. The revised payrolls figures for September and October still show declines of 224k and 225k, respectively. Against this backdrop, the swing to -20k in December is a remarkable improvement, and suggests that the labor market is finally approaching its bottom. *–Harm Bandholz, Unicredit*

Personal Income and Outlays: December 2009

Vanguard 2/5 - Personal income rose 0.4% in December, the sixth consecutive monthly increase. December's news, coupled with November's 0.5% growth rate, represent the largest monthly increases since May 2009, when income was heavily influenced by the government stimulus. The positive news is further evidence of modestly accelerating income growth following the end of the recession last year.

The good news on the personal income front was somewhat offset by modest wage growth of only 0.1%. The relative lack of wage growth helped constrain spending growth, which rose just 0.2% for the month and is likely to remain subdued in the months ahead.

Econoday 2/1 - This morning's personal income report definitely requires some digging beyond the headline numbers. Income was not as good as the headline but spending might be a little better. Today's income report does not bode well for spending in coming months by the average consumer as wages & salaries are being constrained by lack of employment growth.

Press Release 2/1 - Personal income increased $44.5 billion, or 0.4%, and disposable personal income (DPI) increased $45.9 billion, or 0.4%, in December, according to the Bureau of Economic Analysis. Personal consumption expenditures (PCE) increased $22.6 billion, or 0.2%. In November, personal income increased $61.1 billion, or 0.5%, DPI increased $60.7 billion, or 0.5%, and PCE increased $69.1 billion, or 0.7%, based on revised estimates.

Real disposable income increased 0.3% in December, the same increase as in November. Real PCE increased 0.1% in December, compared with an increase of 0.4% in November.

Construction Spending Falls At Faster-Than-Expected Clip

Vanguard 2/5 - Construction spending fell much faster than economists projected, dropping 1.2% in December. Residential construction, which fell 2.8%, was the main driver of the disappointing news and more than offset a modest increase in private nonresidential construction. Overall, December's numbers suggest continued weakness in the housing and commercial real estate markets and do not bode well for a quick turnaround.

Econoday 2/1 - The construction sector is still mired in contraction based on recent construction outlays. Overall construction spending for December dropped another 1.2%, following a revised decrease of 1.2% in November. The latest number was worse than the consensus forecast for a 0.5% decline. Weakness in December was led by decreases in private residential spending and by public outlays.

Reflecting a recent weakening in housing starts, private residential spending dropped 2.8% after a 1.4% fall the month before. The December decline was in the multifamily component which fell 4.4% as new single-family outlays rose 0.6%. Public outlays decreased 1.2%, following a 1.2% decline in November. Private nonresidential outlays made a partial rebound of 0.2% after a 0.9% drop in November.

On a year-ago basis, overall construction outlays improved to minus 9.9% in December from minus 12.0% the previous month.

The economy cannot count on a rise in the tapping of hammers on rooftops and the roar of bulldozers for growth engines for now. Construction appears to remain in recession. However, the markets are paying more attention to the rise in the ISM manufacturing index, adding modestly to earlier gains.

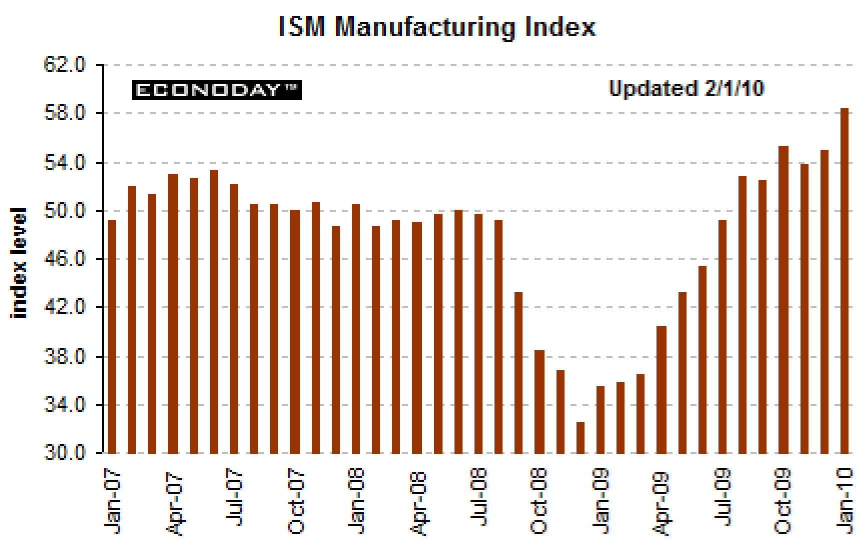
Press Release 2/1 (excerpts) - The U.S. Census Bureau of the Department of Commerce announced today that construction spending during December 2009 was estimated at a seasonally adjusted annual rate of $902.5 billion, 1.2% (±1.3%)* below the revised November estimate of $913.2 billion. The December figure is 9.9% (±1.4%) below the December 2008 estimate of $1,002.1 billion.

The value of construction in 2009 was $939.1 billion, 12.4% (±1.1%) below the $1,072.1 billion spent in 2008.

January 2010 Manufacturing ISM Report On Business®: PMI at 58.4%

Econoday 2/1 - The pace of month-to-month growth in the manufacturing sector rose sharply in January, driven by a red-hot pace of new orders that accelerates higher each month and points to exceptional overall growth through the rest of the first quarter. The ISM's manufacturing index jumped more than 3 points to 58.4 for its sixth straight indication of month-to-month growth (plus 50). New orders posted their third straight reading over 60, rising more than 1 point to 65.9. Exports, centered in electronics, are driving conditions in the manufacturing sector, with the new export order index up 4 points to 58.5.

New orders are now spilling into backlogs which showed a sharp 6 point rise to 56.0. Rising backlogs will use up still idle production capacity leading to a round of hiring.



Press Release 2/1 - Economic activity in the manufacturing sector expanded in January for the sixth consecutive month, and the overall economy grew for the ninth consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

PMI rose to 58.4%, its highest reading since August 2004 when it registered 58.5%. This month's report provides significant assurance that the manufacturing sector is in recovery. Both the New Orders and Production Indexes are above 60%, indicating strong current and future performance for manufacturing. This month, 13 of 18 industries reported growth, up from nine industries last month.

"The past relationship between the PMI and the overall economy indicates that the PMI for January (58.4%) corresponds to a 5.5% increase in real gross domestic product (GDP) on an annual basis."

New Orders: ISM's New Orders Index registered 65.9% in January, 1.1 percentage points higher than the seasonally adjusted 64.8% registered in December. This is the seventh consecutive month of growth in the New Orders Index.

Production: ISM's Production Index registered 66.2% in January, which is an increase of 6.5 percentage points from the December reading of 59.7% (seasonally adjusted). This is the eighth consecutive month the Production Index has registered above 50%.

Employment: ISM's Employment Index registered 53.3% in January, which is 3.1 percentage points higher than the seasonally adjusted 50.2% reported in December. This is the second month of growth in manufacturing employment, and the highest reading since April 2006 (54.9%).

WHAT RESPONDENTS ARE SAYING ...

> *"Commodity prices are moving up again." (Printing & Related Support Activities)*
> *"We now believe that we will not have a good upturn until the 3rd quarter of 2010." (Primary Metals)*
> *"Overall activity is significantly higher than we typically see this time of year." (Machinery)*
> *"Orders from automotive very strong." (Electrical Equipment, Appliances & Components)*
> *"Lead times continue to be a problem for electronic components." (Computer & Electronic Products)*

Vanguard 2/5 - Many economists consider the news a positive sign for higher-than-expected near-term GDP growth.

ISM Non-Manufacturing (Services) Index - January

Vanguard 2/5 - The ISM Non-Manufacturing Index, an important measure of service sector activity, rose at a more modest rate of 0.7 points in January, to 50.5. <u>Economists view the relatively tepid growth in the service sector as a signal that the economic recovery is not broad-based</u>, with a potential for problems once the effects of the stimulus have faded.

Econoday 2/3 - New orders are the good news out the ISM's non-manufacturing report as they were the good news out of Monday's ISM report on the manufacturing side. New orders rose more than 2-1/2 points in January to 54.7, a reading that still lags manufacturing orders by more than 10 points but is still the strongest in more than two years. Rising orders point to rising business activity ahead, here defined as production, and to improvements for the labor market as well. The business activity index, still reflecting softness in new orders in prior months, slipped back 1 point to 52.2 while employment continues to show contraction, well below the break-even 50 level at 44.6 though up 1 point in the month.

The headline composite index continues to hover at no-change, up 7 tenths to 50.5 <u>indicating flat conditions for the bulk of the economy</u>. This reading stands in contrast to GDP which took off in the fourth quarter and which is expected to show continued though slower growth in the first quarter.

Today's report is mixed but new orders do hold out hope for greater strength in future reports.

Factory Orders – December: Factory Orders Continue To Surge

Vanguard 2/5 - Factory orders rose 1.0% in December, double the consensus forecast of 0.5%. A large upward revision to computer and electronic equipment orders was a major factor in the higher-than-expected increase. Shipments, which rose 1.9%, also contributed to the surprising news.

Econoday 2/4 - Factory orders rose solidly in December, up 1.0% on top of a 1.0% gain in November (revised 4 tenths higher) and an unrevised 0.8% gain in October. Strength in orders was split evenly between durable goods and non-durable goods, both up 1.0% (durables revised 7 tenths higher). Capital goods readings show strength in the month. Today's report points to strong momentum for the manufacturing sector going into the New Year, momentum that may have picked up steam judging by Monday's ISM report for January.

Pending Home Sales - December

Press Release 2/2 - The pending home sales index recovered only a small fraction of its deep November plunge, up 1.0% in December to 96.6. What fractional improvement there is is offset in part by a 4 tenths downward revision to November, now at 95.6 for a 16.4% decline. Regional data were steady with the Northeast by far the weakest and the West, despite slippage in the month, still showing strength.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Jan. 30

WSJ 2/4 - An unexpected increase in new U.S. jobless claims, coming just one day before crucial monthly jobs data is due, erased optimism stemming from strong housing and manufacturing data early in the week.

Press Release 2/4 – In the week ending Jan. 30, the advance figure for seasonally adjusted initial claims was 480,000, an increase of 8,000 from the previous week's revised figure of 472,000. The 4-week moving average was 468,750, an increase of 11,750 from the previous week's revised average of 457,000.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Jan. 23, unchanged from the prior week's unrevised rate of 3.5%.

The advance number for seasonally adjusted insured unemployment during the week ending Jan. 23 was 4,602,000, an increase of 2,000 from the preceding week's revised level of 4,600,000. The 4-week moving average was 4,617,500, a decrease of 51,250 from the preceding week's revised average of 4,668,750.

The fiscal year-to-date average for seasonally adjusted insured unemployment for all programs is 5.362 million.

WEEK ENDING	Advance Jan. 30	Jan. 23	Change	Jan. 16	Prior Year
Initial Claims (SA)	480,000	472,000 rev.	+8,000	479,000	624,000
4-Wk Moving Average (SA)	468,750	457,000	+11,750	447,000	581,000

Briefing.com 2/4 - Initial claims weakened further during the week ending Jan. 30 as new filings increased from 472,000 to 480,000. The consensus expected claims to fall to 455,000.

For the past couple of weeks, it was assumed that a backlog in processing applications led to higher initial claims figures. Now, three weeks later, it seems very likely that the weakness in initial claims is due to poor economic conditions.

In a more telling sign of weakness in the labor sector, non-adjusted continuing claims fell by 188,723 workers for the week ending Jan. 16. At the same time, emergency extended benefits increased by 281,442. The data shows virtually no job growth during the week.

Productivity and Costs

Econoday 2/4 (excerpts) - The initial estimate for fourth quarter nonfarm production came in at a strong 6.2% annualized boost, following a revised third quarter 7.2% gain. The latest productivity number marginally beat the market forecast for a 7.0% increase. Unit labor costs declined again, dropping an annualized 4.4% in the fourth quarter, following a revised 1.5% dip the prior quarter. The consensus expectation called for a 3.8% decrease in costs.

The fourth quarter boost in productivity reflected a 7.2% surge in output, following a 2.2% gain the prior quarter. Hours worked actually rebounded a modest 1.0% after a 4.7% annualized drop in the third quarter.

Year-on-year, productivity improved to up 5.1% in the fourth quarter from 3.8% in the third quarter. Year-ago unit labor costs decreased to minus 2.8% from down 1.2% in the prior quarter.

The latest productivity and costs report is good for near-term corporate profits. However, they come at the expense of a continuation of a lack of hiring. Analysts will be lowering their expectations of recovery in the labor market.

Consumer Credit Balances Continue Decline

Vanguard 2/5 - Outstanding balances on consumer credit fell by just $1.7 billion in December, much less than economists' expectations of a $9.0 billion decline for the month and significantly lower than November's record $21.8 billion drop. While revolving credit balances, which include credit cards, continued to fall at a sharp pace, nonrevolving credit balances, which include new car loans, increased by $6.8 billion. December’s drop is the 11th consecutive monthly decline.

Bond Market

BofA 2/3 - -Moody's: unless the U.S. makes more moves to decrease the budget deficit, its "Aaa" bond rating will be put under pressure

Moodys Press Release New York, February 02, 2010 -- The US government budget presented on February 1 was a small start to the big task of returning to a sustainable debt trajectory, but further measures will be necessary if that task is to be accomplished, Moody's Investors Service says in an issuer comment.

Unless further measures are taken to reduce the budget deficit further or the economy rebounds more vigorously than expected, the federal financial picture as presented in the projections for the next decade will at some point put pressure on the Aaa government bond rating.

"Freezing part of discretionary spending for a three-year period beginning in the next fiscal year is a positive step from a rating perspective, says Moody's Senior Credit Officer Steven Hess. "However, the deficits projected in the budget do not stabilize debt levels in relation to GDP, and the portion of government expenditures going to pay interest on the debt shows a steady rise."

The government is constrained for the time being by the high unemployment rate. A big fiscal adjustment right now would be politically difficult and could slow the economic recovery. In addition, extra spending for employment creation in the current fiscal year adds to the long-term debt trajectory.

Entitlement programs will also put significant pressure on the government's fiscal position toward the end of the current decade and thereafter, regardless of the new budget proposals.

"The debt trajectory is clearly continuously upward if further measures are not implemented," Moody's Hess says.

He explains that as interest rates rise from their presently very low level and the size of the debt increases, debt affordability will deteriorate in a major way. Under the proposed budget, the ratio of interest repayments to revenue will double from 8.7% in the current fiscal year to a very high 17.8% by 2020—approximately equal to the highest level in recent decades, reached in the 1980s.

However, the ratio of federal government debt to federal government revenue, another measure used by Moody's to assess the government's financial strength, will fall somewhat from 429% in the current year to 394% in 2020. This is still a high level and is not a strong improvement.

The government's projections show that federal debt held by the public will rise continuously, reaching 77% of GDP by 2020 (compared with 53% at the end of FY 2009 and 64% at the end of the current fiscal year). Using the general government measure (including state and local governments as well as the federal government), which is used internationally, this ratio would be well over 100% in 2020.

The administration itself, in the budget release, recognized that further measures were necessary by announcing its intention to establish a Fiscal Commission. The newly released budget projections include a primary deficit of 0.9% of GDP in 2015. The Commission's mandate would be to move the budget excluding interest expenditures (the primary balance) to a balanced position by 2015. In addition, the Commission's goal may be politically difficult to achieve in that it would require further budget cuts or tax increases.

The Economic Week Ahead: February 8 – February 12

Vanguard 2/5 - After this week's action-packed agenda, economists will be focusing on just three reports scheduled for release next week by the Department of Commerce: the December trade deficit on Wednesday, followed by January retail sales and December business inventories on Thursday.

U.S. Economic Calendar

Date	ET	Release	For	Briefing.com	Consensus	Prior
Feb 09	10:00	Wholesale Inventories	December	-0.3%	0.5%	1.5%
Feb 10	08:30	**Trade Balance**	December	-$32.0B	-$35.5B	-$36.4B
Feb 11	08:30	Initial Claims	02/06	475k	465k	480k
Feb 11	08:30	Continuing Claims	1/30	4550k	4590k	4602k
Feb 11	08:30	**Retail Sales**	January	-0.1%	0.5%	-0.3%
Feb 11	10:00	**Business Inventories**	December	-0.2%	0.3%	0.4%
Feb 12	09:55	Michigan Sentiment	February	75.0	75.0	74.4

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
8-Jan	$ 11,855	$ 2,836	25	$ 605	6
15-Jan	9,060	2,380	13	848	6
22-Jan	4,970	2,928	18	1,972	10
29-Jan	3,685	2,784	15	1,733	9
5-Feb	515	2,797	27	1,954	12