

Market Comment *Economic Highlights for the week ended March 12, 2010*

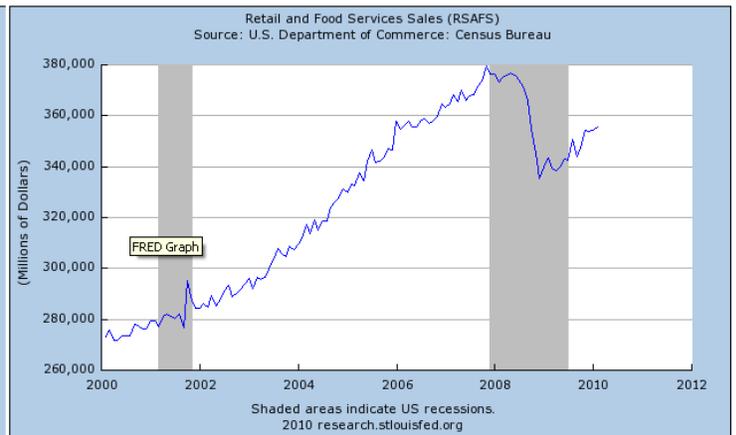
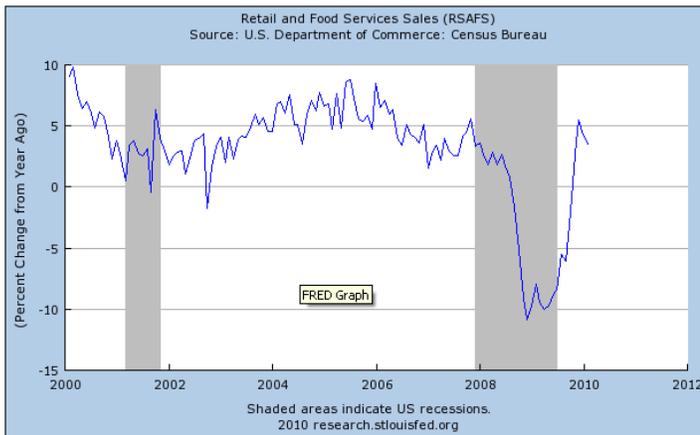
Economic Week In Review: Economy Still Digging Out

Vanguard 3/12 - It was another mixed week for a U.S. economy still trying to distance itself from high unemployment and tight credit. A broad measure of economic activity increased, while two other indicators again reflected a very slow recovery from the country's severe recession. For the week, the S&P 500 Index rose 1.0% to 1,150 (for a year-to-date total return of about 3.6%). The yield on the 10-year U.S. Treasury note increased 2 basis points to 3.71% (for a year-to-date decline of 14 basis points).

Retail Sales Inch Higher

Vanguard 3/12 - Retail sales rose 0.3% in February, a surprising jump considering the fierce winter weather and ongoing recall problems for Toyota. Sales excluding autos and gasoline stations increased almost 1%, while sectors that usually suffer during snowstorms—such as restaurants and building supply stores—also posted strong gains.

However, consumers remain cautious because of high unemployment, lack of available credit, and only modest gains in disposable income. Their concern was reflected in January's numbers, revised downward from 0.5% to 0.1%. Retail sales are an important component of consumer spending, which constitutes roughly 70% of demand in the U.S. economy. Despite the increase, retail sales still are considerably lower than figures from February 2008 and February 2007.



Press Release 3/12 - The U.S. Census Bureau announced today that advance estimates of U.S. retail and food services sales for February, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$355.5B, an increase of 0.3% from the previous month and 3.9% above February 2009. Total sales for the December 2009 through February 2010 period were up 4.5% from the same period a year ago. The December 2009 to January 2010 percent change was revised from +0.5% to +0.1%.

Gasoline stations sales were up 24.0% from February 2009 and non-store retailers sales were up 11.8% from last year.

Business Inventories Flat

Vanguard 3/12 - Business inventories were unchanged in January as the supply of autos and other goods increased 0.5% to offset a decrease in other sectors. Manufacturing inventories rose 0.3%, while wholesale inventories fell 0.2%. Inventories are part of the input used to determine gross domestic product (GDP), a broad measure of all the goods and services produced by the U.S. economy. The nation's GDP grew by an annualized 5.9% in the fourth quarter of 2009, led by a buildup in business inventories.

MSNBC 3/12 - Investors also were displeased with the Commerce Department's report that inventories were unchanged. Economists had forecast an increase. Analysts are hoping that businesses will restock store shelves on a consistent basis, which would be a positive signal for the economy.

Trade Gap Narrows But Volume Way Down

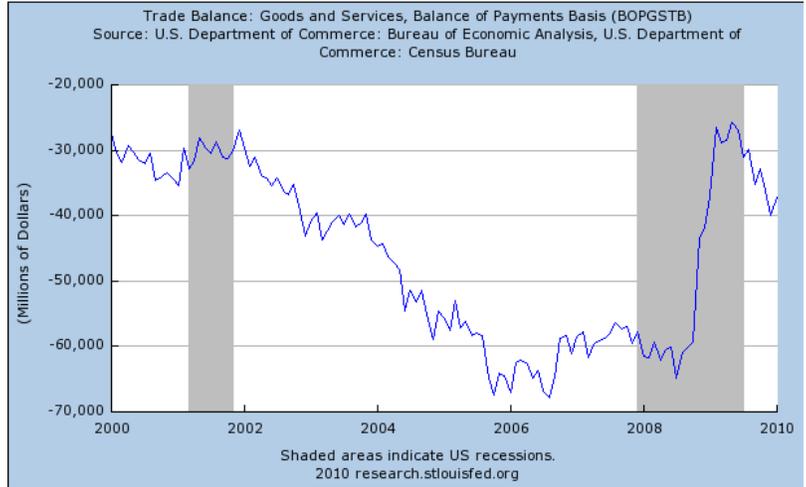
Vanguard 3/12 - The U.S. trade deficit declined 6.5% to \$37.3B in January, down from December's revised \$39.9B gap. The "big story" here was the plunge in trade volume, led by a large drop in total automobile trade

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and the nation's lowest level of crude oil imports since 1999. The inflation-adjusted deficit, used to measure its effect on GDP, also dipped. Despite January's import-export decline, overall trade volume continues to slowly increase.

Press Release 3/11 (excerpts) - The Census Bureau and the Bureau of Economic Analysis, announced today that, total January exports of \$142.7B and imports of \$180.0B resulted in a goods and services deficit of \$37.3B, down from \$39.9B in December, revised. January exports were \$0.5B less than December exports of \$143.2B. January imports were \$3.1B less than December imports of \$183.1B.



Thomson Reuters/University Of Michigan Index of Consumer Sentiment: Improvement Ends

Reuters 3/12 - U.S. consumer sentiment declined slightly in early March, with Americans less positive about the job outlook, according to Thomson Reuters/University of Michigan's Surveys of Consumers.

The preliminary March reading for the surveys' overall index on consumer sentiment was 72.5, down from 73.6 where it ended in February, and below the 73.6 forecast by analysts polled by Reuters. The reading, however, stayed close to its six-month average, and was significantly above the year-ago level. ,

In early March, consumers were expecting no change in the national rate of unemployment, which stands at 9.7 percent, for the rest of 2010, and were losing confidence in help from government economic policies, the survey showed. The majority expected recurrent economic weaknesses over the next several years. Buying plans are more dependent than ever on the availability of discounts.

"(The sentiment reading) really has shown very little variation over the past several months, and that's mostly because consumers no longer fear unemployment will go up any more, but they don't expect it to improve very much in the year ahead," Richard Curtin, director of the surveys said in an interview with Reuters Insider.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Mar. 6

Press Release 3/11 – In the week ending March 6, the advance figure for seasonally adjusted initial claims was 462,000, a decrease of 6,000 from the previous week's revised figure of 468,000. The 4-week moving average was 475,500, an increase of 5,000 from the previous week's revised average of 470,500.

The advance seasonally adjusted insured unemployment rate was 3.5 percent for the week ending Feb. 27, unchanged from the prior week's unrevised rate of 3.5 percent.

WEEK ENDING	Advance Mar. 6	Feb. 27	Change	Feb. 20	Prior Year
Initial Claims (SA)	462,000	468,000	-6,000	498,000	657,000
4-Wk Moving Average (SA)	475,500	470,500	+5,000	474,250	646,750

The advance number for seasonally adjusted insured unemployment during the week ending Feb. 27 was 4,558,000, an increase of 37,000 from the preceding week's revised level of 4,521,000. The 4-week moving average was 4,581,000, unchanged from the preceding week's revised average of 4,581,000.

S&P on U.S. Sovereign Debt Rating / Currency

Press Release 3/11 (excerpts) - The U.S. dollar has retained its position as the key international currency, contributing to the 'AAA' rating on its government, S&P's Ratings Services said in a report published yesterday. "If the dollar did not have this role, we believe that the U.S. would not have such ready access to external financing, interest rates would have to rise to attract higher domestic savings, and potential growth would fall."

Using data compiled by the Bank for International Settlements, the IMF, the Fed, and the Bank of England, the report argues that the U.S. dollar did not attain this position by accident, nor does the U.S. maintain it simply with inertia. "Rather, the dollar's widespread acceptance stems from the U.S. economy's fundamental strength, which

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we see coming from the economy's size and the flexibility of labor and product markets," Mr. Chambers added. "As long as inflation is moderate and stable, financial markets are sound and unfettered relative to their peers, we expect the U.S. dollar to continue to be the key international currency.

"Standard & Poor's cited the growing external debtor position of the U.S. as the key vulnerability of the U.S. dollar's reserve currency role. Since the global recession, a second U.S. weakness has emerged: its fiscal position. Standard & Poor's expects that general government deficits of 11% of GDP in fiscal-year 2010 will only gradually decline to 5% of GDP by 2013, at which point the ratio of net general government debt to GDP will have reached 82%, more than doubling its pre-recession level of 38% in 2007.

"Without a medium-term fiscal consolidation plan that the market views as credible, external creditors could reduce their U.S. dollar holdings. The Eurozone members as a whole face a similar challenge.

The Economic Week Ahead: March 15 - 19

Vanguard 3/12 - We'll have a full plate of economic reports, starting with industrial production Monday and new residential construction and FOMC monetary policy on Tuesday. Wednesday brings the producer price index, followed by jobless claims, consumer price index, and leading indicators from the Conference Board on Thursday.

U.S. Economic Calendar

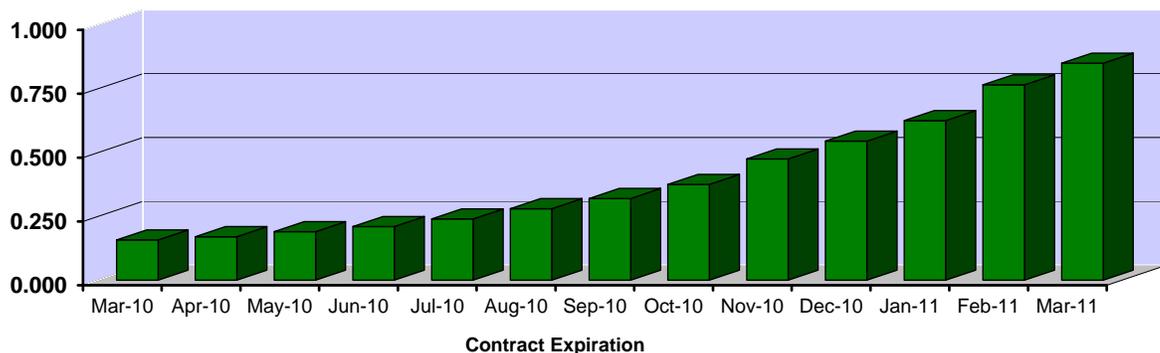
Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Mar 15	08:30	Empire Manufacturing Survey	March	22.0	21.45	24.91
Mar 15	09:15	Capacity Utilization	February	72.8%	72.6%	72.6%
Mar 15	09:15	Industrial Production	February	0.2%	0.0%	0.9%
Mar 16	08:30	Building Permits	February	610K	602K	622K
Mar 16	08:30	Housing Starts	February	550K	570K	591K
Mar 16	08:30	Import Prices ex-oil	February	NA	NA	0.4%
Mar 16	08:30	Export Prices ex-ag.	February	NA	NA	0.7%
Mar 16	14:15	FOMC Rate Decision	March 16	0.25%	0.25%	0.25%
Mar 17	08:30	Producer Price Index (PPI)	February	-0.3%	-0.2%	1.4%
Mar 18	08:30	Consumer Price Index (CPI)	February	0.2%	0.1%	0.2%
Mar 18	08:30	Initial Claims for Unemployment Benefits	03/13	460K	450K	462K
Mar 18	10:00	Leading Indicators	February	0.0%	0.1%	0.3%

Futures-Implied Fed Funds Rate

Avg. Fed Funds Rate %

Friday, March 12, 2010 (Open)



Contract Expiration	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Rate %	0.157	0.170	0.190	0.210	0.240	0.280	0.320	0.375	0.475	0.545
FOMC MEETINGS:	3/16	4/28		6/23		8/10	9/21		11/3	12/14