Market Comment *Economic Highlights for the week ended July 22, 2011*

Economic Week In Review: Mixed News For Housing Market

Vanguard 7/22 – The scorching heat wave that set record temperatures across much of the nation didn't extend to the economy, which remains tepid at best according to the latest readings. There was a rise in the Conference Board's index of leading economic indicators and a bump in new residential construction. However, existing-home sales dropped for the third straight month as President Barack Obama and congressional leaders continued to negotiate over an increase in the nation's debt limit. For the week ending July 22, the S&P 500 Index rose 2.2% to 1,345 (for a year-to-date total return of about 8.1%). The yield on the 10-year U.S. Treasury note rose 5 basis points to 2.99% (for a year-to-date decrease of 31 basis points).

Net Long-Term TIC Flows: May

Econoday 7/18 - Held down by increasing US investment overseas, net inflow of long-term securities slowed to $23.6 billion in May for the weakest reading of the year. US resident outflow totaled $21.0 billion, up from $14.2 billion in April and compared with $30.6 billion in March. <u>Low US yields are likely pushing investment overseas and limiting investment at home</u>.

Foreign buying of US long-term securities totaled an in-trend $44.6 billion in May and was centered in Treasuries along with a respectable total for equities. Foreigners sold government agency bonds during the month though they were moderate buyers of US corporate bonds. Foreign purchases were roughly split evenly between private investors and official institutions.

A look at foreign holdings of Treasuries shows incremental gains for China, to $1.16 trillion, and Japan, to $912.4 trillion (should be $B?), with a slightly more than incremental gain for UK accounts to $346.5 billion. OPEC, the fourth largest holder of Treasuries, shows a more than $8 billion gain to $229.8 billion. Russia, the ninth largest holder, fell more than $10 billion to $115.2 billion.

NAHB Housing Market Index: July

Econoday 7/18 - Home builders report improvement in July with the housing market index rising two points to 15 from an unusually depressed June. The month's gain is centered in expectations for future sales where the component jumped an extremely sharp seven points to 22. Current sales rose two points to 15 while traffic is unchanged at 12.

Despite June's gain, the index has held within a depressed three-point range for nine of the last 10 months.

Housing Starts And Building Permits: June - Pace Picks Up For New Residential Construction

Vanguard 7/22 - Construction on new U.S. homes increased 14.6% in June to an annualized rate of 629,000. The number exceeded analysts' expectations, although May's figures were revised downward 2%. Multifamily starts advanced 30%, while single-family starts rose 9.4%. <u>Compared to a year ago, housing starts were up 16.7%</u>. Although the gains are noticeable, <u>the rate of new construction isn't at a notably high level</u>. Foreclosed homes still weigh on the market, and the unsteady economy and poor labor market continue to impede potential homebuyers.

Econoday 7/19 - Housing is continuing to move up from near rock bottom. The boost in June was led by a 30.4% surge in the multifamily component, following a 2.2% dip in May. The single-family component rose 9.4% after gaining 0.7% the prior month.

By region, the boost in starts was led by a monthly 35.1% increase in the Northeast. Other regions also improved with the Midwest up 25.3%; the South, up 10.6%; and the West, up 5.4%.

Building permits advanced 2.5%, following an 8.2% surge in May. Overall permits stood at an annualized rate of 0.624 million units and are actually up 6.7% on a year-ago basis. Whether the recent slow uptrend in starts continues will depend on whether supply comes down.

MBA Mortgage Purchase Index

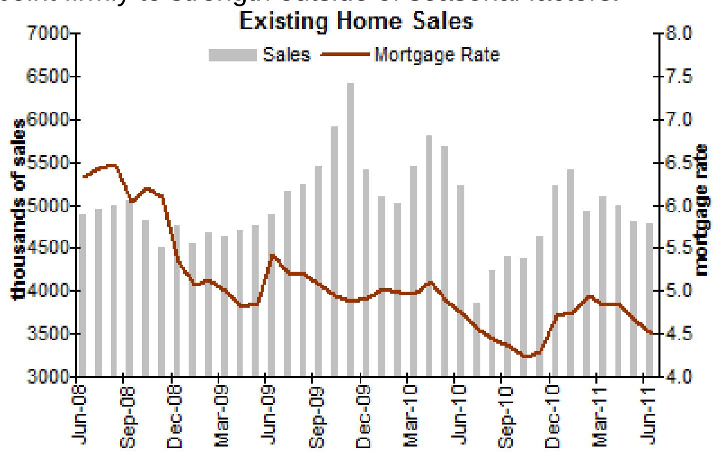
Econoday 7/20 - Low mortgage rates and pending decreases in conforming loan limits led to a 23.1% surge in refinance applications during the July 15 week, according to the Mortgage Bankers Association. Purchase applications show little change, down 0.1% in the week. The average 30-year fixed rate loan fell slightly to 4.54%.

Existing Home Sales: June - Tumble continues for existing-home sales

Vanguard 7/22 – Sales of existing homes fell 0.8% in June to an annualized rate of 4.77 million. The monthly decline—the third straight—was unexpected but attributed to a rise in canceled contracts and the tough economy. Sales were down 8.8% compared to June 2010, when the first-time home buyer tax credit was still in effect. Most of the decline was the result of condominium sales, which dropped 7%. Single-family home sales were unchanged. Across the regions, sales rose slightly in the Midwest, were stable in the South, and fell in the Northeast and West. Compared to a year ago, the median existing-home price was up 0.8%, to $184,300.

Econoday 7/20 - What sales there were came in at substantially higher prices, at a median $184,300 for an 8.9% monthly gain with the year-on-year rate moving into positive ground for the first time this year at plus 0.8%. The average price, at $236,200, rose 8.5% with the year-on-year rate at plus 2.7%. Note that prices in this report are not seasonally adjusted though year-on-year strength does point firmly to strength outside of seasonal factors.

The strength in prices came despite increasing supply, at 9.5 months at the current sales rate vs 9.1 months in May. More homes are coming on the market, at an unadjusted 508,000 for an 11% gain from May. Distressed sales made up 30% of sales in the month, little changed from May, with all cash transactions making up 29% of sales, also little changed. First-time buyers fell back to 31% from 36% in May.



Price readings in this report should help offset disappointment over heavy supply and over the headline decline.

Crude Inventories: Week of July 16

Econoday 7/20 - Continuing soft levels of imports and rising refinery output made for a 3.7 million barrel draw in commercial oil stocks to 351.7 million barrels in the July 15 week. But the output from refineries, which are operating at a very strong 90% of capacity, is going into inventory with gasoline stocks up 0.8 million barrels and distillate stocks up 3.4 million. Gasoline demand, despite an ongoing decline in price, is down 2.2% for the lowest year-on-year rate of the year with distillate demand down 2.5%. The weak demand for gasoline hints at trouble for overall consumer spending. Oil prices rose briefly in reaction to the headline draw in oil but have since edged back with West Texas Intermediate holding at just over $98.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – Week of July 16

Press Release 7/21 (excerpts) – In the week ending July 16, the advance figure for seasonally adjusted **initial claims** was 418,000, an increase of 10,000 from the previous week's revised figure of 408,000. The 4-week moving average was 421,250, a decrease of 2,750 from the previous week's revised average of 424,000.

The advance seasonally adjusted **insured unemployment rate** was 2.9% for the week ending July 9, a 0.1 percentage point decrease from the prior week's unrevised rate of 3.0%.

The advance number for seasonally adjusted **insured unemployment** during the week ending July 9 was 3,698,000, a decrease of 50,000 from the preceding week's revised level of 3,748,000. The 4-week moving average was 3,720,500, a decrease of 4,000 from the preceding week's revised average of 3,724,500.

WEEK ENDING	July 16	July 9	Change	July 2	Prior Year
Initial Claims (SA)	418,000	408,000	+10,000	427,000	466,000
4-Wk Moving Average (SA)	421,250	424,000	-2,750	427,000	459,500

Econoday 7/21 - Layoffs remain stubbornly high though longer term trends may be improving if only slightly. Initial jobless claims rose 10,000 in the July 16 week to a 418,000 level that's slightly higher than expected (prior week revised 3,000 higher to 408,000). The July 16 week is the survey week for the household employment section of the monthly employment report and a comparison with the prior survey week of June 18 shows an improvement but a small one at 9,000. A comparison of four-week averages during the same two weeks shows a smaller 5,000 improvement, to 421,250 vs. 426,250.

Other data include a 50,000 decline in continuing claims for the July 9 week to 3.698 million with the four-week average down 4,000 to 3.721 million. The unemployment rate for insured workers is down one tenth to 2.9%.

There are no special factors skewing today's report with claims tied to the government shutdown in Minnesota adding up to no more than 1,750. The job market is still very tough though trends in this report hint at slight improvement from June's extremely disappointing employment report.

Philadelphia Fed: June

Econoday 7/21 - The Mid-Atlantic manufacturing sector has hit a soft patch of very flat growth based on the Philly Fed's general business conditions index which comes in this month at 3.2, only a bit above break-even zero to indicate very slight growth compared to June. But this is better than June's reading of minus 7.7 and is in line with the soft reading in May of 3.9.

New orders are essentially flat, at 0.1 to show little change from June's depressed level of minus 7.6. Backlogs, at minus 16.3 for a second month, show steep contraction and indicate that manufacturers in the region are keeping themselves busy by working down business in their pipeline. Shipments, showing marginal but steady growth, are getting a boost from the working down of backlogs as is hiring which, in especially good news, is picking up a bit this month.

The six-month outlook also improved this month though most of the report's readings, like those of the previously released Empire State report, are on the soft side. The manufacturing sector has definitely slowed, easing back from perhaps unsustainably strong growth earlier in the year and hit by special factors including Japanese supply constraints.

Leading Indicators: June - Leading Indicators Advance

Vanguard 7/22 - The index of leading economic indicators rose 0.3% in June, less than May's 0.8% jump but still an encouraging sign that April's –0.3% reading represented temporary factors and was not part of a larger trend. Compared to June 2010, the index was about 6% higher. Five indicators rose in June, with real money supply the largest contributor, followed by interest rate spread. Stock prices were the largest detractor, along with consumer expectations. The coincident index, which measures current economic activity, inched ahead 0.1%. The indexes are a compilation of indicators that can provide insight into both current and future activity in the broader economy.

"Negative investor sentiment and weakening consumer expectations are both clear signs of the uncertainty surrounding critical policy decisions in Europe and in the U.S. Congress," said Vanguard economist Roger Aliaga-Díaz. "The recent news about a strong proposal for the resolution of the Greek crisis will most likely be very well-received. If in addition we get a resolution of the gridlock around the debt-ceiling issue sometime soon, we may be set for a nice turnaround in investor and consumer sentiment."

Econoday 7/21 - Financial measures are giving a lift to the index of leading economic indicators where other components are mostly soft. The top factor for June is an increase in money supply with the second factor once again the yield spread between long rates and short rates with the latter being kept near zero by the Federal Reserve. The negative side is led by consumer expectations which have slid back toward recovery lows. The stock market is also a negative for June as is the factory workweek.

The Conference Board, which compiles the report, notes that the results are being held back by special factors including Japanese-related disruptions, unusually severe weather, and the debt ceiling uncertainty. Apart from these, the Conference Board believes the economy is in a solid but slow uptrend.

FHFA Housing Price Index: May

Econoday 7/21 - Home prices in in May rose for the second month in a row. The FHFA purchase only house price index rose 0.4% in May, following a 0.2% increase in April (originally up 0.8%). On a year-on-year basis, the FHFA HPI is down 6.3% versus down 6.4% in April.

The Economic Week Ahead: July 25 –July 29, 2010

Vanguard 7/22- Next week's slate of economic news is a bit heavier. Reports on consumer confidence and new-home sales are scheduled for Tuesday, followed by durable goods and the Federal Reserve's Beige Book nationwide survey of economic activity on Wednesday, and employment costs and real gross domestic product on Friday.

This Week's U.S. Economic Calendar *Source: Briefing.com*

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jul 26	10:00	Consumer Confidence	July	55.0	56.0	58.5
Jul 26	10:00	New Home Sales	June	300K	320K	319K
Jul 27	07:00	MBA Mortgage Purchase Index	07/23	NA	NA	+15.5%
Jul 27	08:30	Durable Orders	June	-0.1%	0.4%	2.1%
Jul 27	10:30	Crude Inventories	07/23	NA	NA	-3.727M
Jul 27	14:00	**Fed's Beige Book**	July			
Jul 28	08:30	Initial Claims	07/23	440K	415K	418K
Jul 28	08:30	Continuing Claims	07/16	3700K	3688K	3698K
Jul 28	10:00	Pending Home Sales	June	-3.5%	-3.0%	8.2%
Jul 29	08:30	**GDP**	Q2	2.1%	1.6%	1.9%
Jul 29	08:30	Employment Cost Index	Q2	0.5%	0.5%	0.6%
Jul 29	09:45	Chicago PMI	July	56.0	58.0	61.1
Jul 29	09:55	Michigan Sentiment - Final	July	62.5	63.8	63.8

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
24-Jun	$ 6,805	$ 1,970	14	$ 641	10
1-Jul	4,760	878	7	1,013	9
8-Jul	4,725	1,244	11	756	7
15-Jul	6,760	1,511	23	142	3
22-Jul	7,015	2,175	25	1,056	12