

Market Comment *Economic Highlights for the week ended December 30, 2011*

Economic Week In Review: Stocks Took A Wild Ride To An Unremarkable Result In 2011

Vanguard 12/30 - The slim gain of about 2% posted by the S&P 500 Index for 2011 (including price changes plus dividends) belied the stock market's extreme gyrations during the year. The index was up by about 9% in April on hopes that the U.S. economic expansion was starting to gain traction. By early October the index had tumbled by about 20% from its peak for the year on news about the U.S. debt ceiling and a widening of the sovereign debt crisis in Europe. In the year's final months, the stock market regained ground on brighter macroeconomic data. Despite Standard & Poor's downgrade of U.S. long-term debt, U.S. Treasuries rallied as anxious investors sought shelter from turbulent stock markets. Over the year, the yield of the 10-year U.S. Treasury note fell 141 basis points to 1.89%.

For the week ended December 30, the S&P 500 Index fell 0.6% to 1,258 while the yield on the 10-year U.S. Treasury note fell 14 basis points to 1.89%.

AFP 1/2 - During the days between the holidays, we learned that consumer sentiment and pending home sales activity were improving, while jobless claims remained below a critical symbolic level. At the same time, a series of regional manufacturing activity reports provided a mixed view of the sector.

Consumer Confidence - November

Vanguard 12/30 - The Conference Board's consumer confidence index rose to 64.5 in December, up from a low in October of 40.9 and well above the consensus estimate of 58.3. The expectations component rose a full 10 points, with fewer respondents saying that jobs are hard to get and more saying that they expect their income to increase over the next 6 months. However, the number of consumers who said they were planning to buy a home only inched up slightly and fewer said they were likely to buy appliances or cars in the near term. "While consumers are ending the year in a somewhat more upbeat mood, it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes," said Lynn Franco, director of The Conference Board Consumer Research Center.

While the index's overall reading is now above the average for the 2008–2009 recession, Vanguard economist Roger Aliaga-Díaz points out, "The normal non-recession value for the index is 100, so at 64.5 we're still a long way from that normal." Some key determinants of consumer confidence are the state of the labor market and consumers' income prospects, so continuing improvements in the index will come only if we see good progress on the unemployment front."

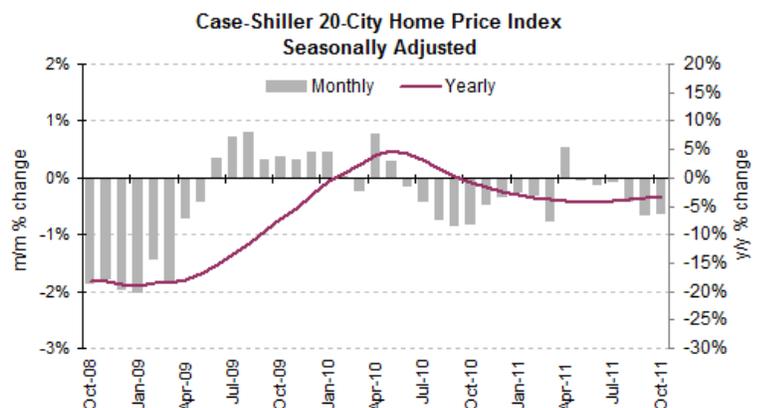
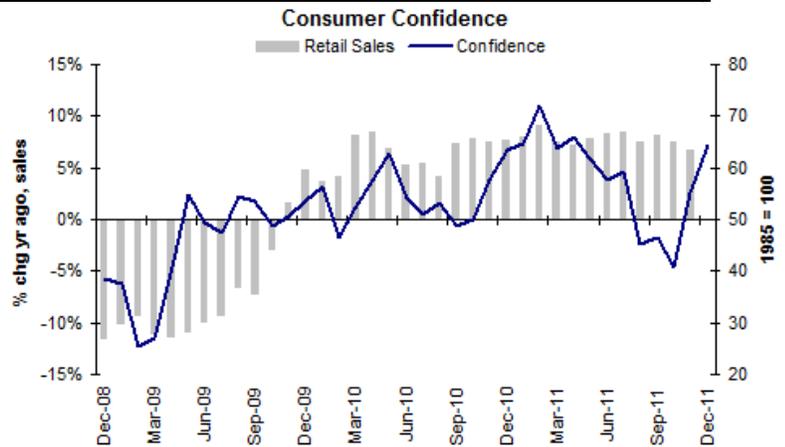
Econoday 12/27 – Most of the details in today's report are positive. More say jobs are currently plentiful, 6.7%, and more see more jobs ahead, 13.3%. Less, 20.2%, see fewer jobs ahead. Higher oil prices have yet to be passed through to consumers who see less inflation ahead, at 5.4% vs. November's 5.6%.

The jobs data in this report confirm the improvement underway in weekly jobless claims and will help boost expectations for the December employment report.

Barclays 12/27 - In general, this was the second consecutive strong gain in consumer confidence and suggests to us that as long as labor market conditions continue to improve, consumers should continue upgrading their assessment of current and future economic conditions.

Case-Shiller Home Prices - October

Barclays 12/27 - The S&P/Case Shiller Home Price Index fell -0.62% m/m in October, slightly more than we and the consensus (-0.40%) expected. The



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decline in October left the index down 3.40% y/y. Only four of 20 metropolitan statistical areas (MSAs) posted gains during the month -- Denver (0.50%), Washington DC (0.27%), Charlotte (0.21%), and Tampa (0.16%) -- and only two of 20 MSAs posted gains on a y/y basis (Detroit and Washington DC). MSAs with low concentrations of foreclosures had been outperforming MSAs with higher concentrations of foreclosures in the first half of the year. MSAs with high concentrations of foreclosures are down -4.86% y/y while the remaining MSAs are only down 2.5%.

AFP 1/2 - The index also was off 32.1% since its peak during the summer of 2006.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Dec 24

Press Release 12/27 (excerpts) - In the week ending December 24, the advance figure for seasonally adjusted initial claims was 381,000, an increase of 15,000 from the previous week's revised figure of 366,000. The 4-week moving average was 375,000, a decrease of 5,750 from the previous week's revised average of 380,750.

WEEK ENDING	Dec 24	Dec 17	Change	Dec 10	Prior Year
Initial Claims (SA)	381,000	366,000	+15,000	368,000	404,000
4-Wk Moving Average (SA)	375,000	380,750	-5,750	388,250	419,750

Econoday 12/22 – Estimates were needed in the December 24 week for a large number of states, seven states which isn't unusual for a holiday week but nevertheless still cloud a large 15,000 rise in initial claims to 381,000 (prior week revised 2,000 higher). The four-week average for this series grows in importance during the holidays and, despite the rise in the latest week, shows a sizable decline of 5,750 to a 375,000 level that's the best of the recovery. This is the fourth straight decline for the four-week average and the eighth decline in the last nine weeks.

The steady downtrend in the four-week average for initial claims is tangible evidence of improvement in the labor market.

Barclays 12/27 - ...despite the rise this week, the four-week moving average in initial claims declined to 375k from 381k, another post-recession low in the longer-term trend.

Chicago PMI - November

Econoday 12/29 –Business activity in the Chicago area is very brisk led by strength in orders and supported by depth in backlogs. The new orders index for December is at 68.0, an unusually strong reading that's well above 50 to indicate a robust pace of month-to-month growth. Note that growth in new orders during November was even stronger, at 70.2.

Readings on production and employment are also very strong in today's report with inventories showing a modest slowing in what is already a modest rate of accumulation.

The composite index for December is little changed at a very strong 62.5.

Barclays 12/29 - While the Chicago survey has historically had a fairly close correlation with the national ISM, it has taken a consistently stronger tone for some months.

Pending Home Sales - November

Econoday 12/29 –Softening prices and very low mortgage rates are boosting housing activity. The pending home sales index is up a very strong 7.3% in November on top of October's 10.4% gain. Regionally, November's gains are led by the West and include the Northeast and Midwest with the South showing no change. November and October taken together show solid gains for all regions.

Gains in this report reflect increases in the number of contracts that have been signed. But contracts don't always close especially given difficulty for many buyers, whose own homes are falling in value, to get credit.

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The Economic Week Ahead: Jan 2– Jan 6, 2012

Vanguard 12/30- A number of reports are set to be released during the opening week of 2012. The Institute for Supply Management will publish its latest gauges of manufacturing and service-sector activity (Tuesday and Thursday, respectively). Other reports will include construction spending (Tuesday), factory orders (Wednesday), and consumer credit, unemployment, and nonfarm payrolls (Friday).

This Week's U.S. Economic Calendar

Source: MarketWatch

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, JAN. 2		None Scheduled			
TUESDAY, JAN. 3	10 a.m.	ISM Manufacturing Index	Dec.	53.1%	52.7%
	10 a.m.	Construction Spending	Nov.	0.0%	0.8%
	2 p.m.	FOMC Minutes	12/13		
WEDNESDAY, JAN. 4	10 a.m.	Factory Orders	Nov.	2.5%	-0.4%
THURSDAY, JAN. 5	8:15 a.m.	ADP Employment	Dec.	--	206,000
	8:30 a.m.	Initial Jobless Claims	12-31	N/A	N/A
	10 a.m.	ISM Non-Manufacturing	Dec.	53.4%	52.0%
FRIDAY, JAN. 6	8:30 a.m.	Nonfarm Payrolls	Dec.	150,000	120,000
	8:30 a.m.	Unemployment Rate	Dec.	8.7%	8.6%

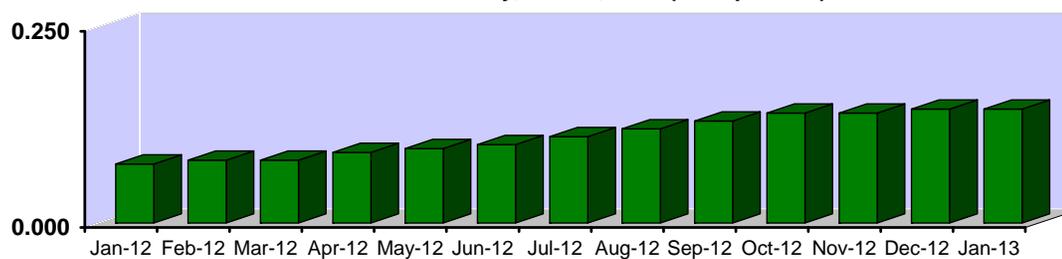
FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
2-Dec	\$ 2,280	\$ 2,824	22	\$ 1,051	7
9-Dec	4,290	3,936	28	1,875	13
16-Dec	5,455	4,209	26	1,634	16
23-Dec	4,200	1,504	17	884	6
30-Dec	4,890	511	6	114	1

Futures-Implied Fed Funds Rate

Avg. Fed Funds Rate %

Wednesday, Jan. 3, 2012 (12:15pm EST)



Rate %	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12
FOMC MEETINGS:	1/28		3/13	4/25		6/20	7/31		9/12	10/24