Market Comment *Economic Highlights for the week ended December 31, 2010*

Economic Week in Review: Stocks Post Double-Digit Gains In 2010

Vanguard 12/31 - Economic news was light this week, as 2010 came to a close. Consumer confidence was down for the month of December amid rising concerns over the future state of the job market. For the week ended December 31, the S&P 500 Index rose 0.1% to 1,257 (for a year-to-date total return of about 15%). The yield of the 10-year U.S. Treasury note fell 12 basis points to 3.29% (for a year-to-date decrease of 56 points).

Consumer Confidence – December: Consumer Confidence Dwindles

Vanguard 12/31 - The Conference Board's index of consumer confidence dropped unexpectedly in December to 52.5, down from 54.3 in November. Economists had expected an increase in confidence for the month, since the survey was conducted after Congress voted to extend the Bush-era tax cuts.

Consumers' views on their present economic situation and their expectations six months from now both declined slightly. Still, the biggest concern for consumers was the job market—the survey showed an increase in the number of consumers who believe that jobs are hard to get and who think there will be even fewer jobs six months from now.

"Consumers' assessment of the current state of the economy and labor market remains tepid, and their outlook remains cautious," said Lynn Franco, director. "Thus, all signs continue to suggest that the economic expansion will continue well into 2011, but that the pace of growth will remain moderate." Despite the drop in December, consumer confidence is still on par with the confidence levels of a year ago.

AFP 1/3 - The measure of consumer sentiment retrenched slightly in December as both the current conditions and the expectations indices pulled back. The current conditions index declined 1.9 points to 23.5 while the expectations index decreased 1.7 points to 71.9. The key issue remained the same: jobs. 46.8% of survey respondents report that jobs were “hard to get,” up slightly from November. Just 9.9% of consumers expected their incomes would increase in the coming months.

S&P/Case-Shiller Home Price Index Weaker Than Expected In October

Barclays 12/28 - The S&P/Case-Shiller 20-City Home Price Index fell 1.0% in October, more than we or the consensus had expected (-0.6%) and it was the fourth consecutive monthly decline. September's gain was revised down to 0.4% from 0.6%. On a y/y basis, the index fell 0.8% in October, down from a 0.4% gain in September. A large inventory of foreclosed properties has been weighing on home prices, and while the first-time homebuyer tax credit bolstered sales and prices through the early summer, the 20-city index has fallen a cumulative 2.9% since June. On a y/y basis, four of the 20 cities showed increases, with the largest in Washington DC (3.7%), while 16 other cities showed declines ranging from -0.2% in Boston to -6.5% in Chicago.

Press Release 12/28 (excerpts) - The 10-City Composite was up only 0.2% and the 20-City Composite fell 0.8% from their levels in October 2009. Home prices decreased in all 20 MSAs and both Composites in October from their September levels. October was the fifth consecutive month where the annual growth rates moderated from their prior month’s pace, confirming a clear deceleration in home price returns.

“The double-dip is almost here, as six cities set new lows for the period since the 2006 peaks. There is no good news in October’s report. Home prices across the country continue to fall.” says David M. Blitzer, Chairman of the Index Committee at Standard & Poor's. “The trends we have seen over the past few months have not changed. The tax incentives are over and the national economy remained lackluster in October, the month covered by these data. Existing homes sales and housing starts have been reported for both October and November, and neither is giving any sense of optimism. On a year-over-year basis, sales are down more than 25% and the months’ supply of unsold homes is about 50% above where it was during the same months of last year. Housing starts are still hovering near 30-year lows. While delinquency rates might have seen some recent improvement, it is only on a relative basis. They are still well above their historic averages, in both the prime and sub-prime markets.

US Pending Home Sales Up 3.5% in November

Barclays 12/30 - US pending home sales rose 3.5% in November after a revised 10.1% gain in October, in line with our forecast but above that of the consensus (0.8%). Regionally, the gain was driven by a 19.0% jump in the West, while the Northeast posted a small gain (1.3%) and the Midwest and South saw modest declines (-3.4%

and -1.7% respectively) after healthy gains in October. November's continued improvement in pending home sales puts the national y/y rate at -2.4%, up from -22.6% in October, and pushes the national index to the highest level since August 2008. While this is a volatile series, the summer slump, which followed the expiration of the homebuyer tax credit, seems to have faded.

AFP 1/3 - The index of signed but not closed transactions of previously owned homes increased for the 4th time in 5 months and moved to its highest reading since the end of the homebuyer tax credit program in April. The index was below year ago levels in 3 of 4 Census regions, with a modest 0.4% increase in the West being the exception.

Agricultural Prices – December

AFP 1/3 - This was the smallest increase in agricultural prices since a 2.1% decline in June. Prices of food commodities were unchanged during the month. Prices received by farmers have increased 18.5% over the past 12 months while food commodity prices have risen 14.0%. Crop prices were up 1.1%, as big jumps in the price of food grains, hay and cotton were balanced by large declines in the price of fruit and commercial vegetables. Livestock & related product prices fell 0.7% in December as meat prices increased while those of dairy and poultry products declined.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Dec. 25

Press Release 12/30 (excerpts) – In the week ending Dec. 25, the advance figure for seasonally adjusted initial claims was 388,000, a decrease of 34,000 from the previous week's revised figure of 422,000. The 4-week moving average was 414,000, a decrease of 12,500 from the previous week's revised average of 426,500.

The advance seasonally adjusted insured unemployment rate was 3.3% for the week ending Dec. 18, an increase of 0.1 percentage point from the prior week's unrevised rate of 3.2%.

The advance number for seasonally adjusted insured unemployment during the week ending Dec.18 was 4,128,000, an increase of 57,000 from the preceding week's revised level of 4,071,000. The 4-week moving average was 4,120,000, a decrease of 37,250 from the preceding week's revised average of 4,157,250.

WEEK ENDING	Dec. 25	Dec. 18	Change	Dec. 11	Prior Year
Initial Claims (Seasonally Adj)	388,000	422,000	-34,000	423,000	454,000
4-Wk Moving Average (SA)	414,000	426,500	-12,500	423,500	474,000

AFP 1/3 - This was the fewest initial claims made for unemployment benefits on a seasonally adjusted basis since the summer of 2008. The 4-week moving average plummeted to 414,000 (-12,500 from the previous week), also a multi-year low. During the week ending December 11th, there were 8.867 million workers receiving unemployment insurance benefits (including extended benefits), a decline of 35.4 thousand from the previous week.

Looking Ahead – Assorted Forecasts and Comments on Risk from the In-basket

Economists Become Increasingly Optimistic About Growth - While many economists have increased their economic growth estimates for the coming year, they are split on which way the unemployment rate will go. Most economists expect state and local governments to face budget problems although an increase in economic growth should help ease them. SIFMA conducted a survey of economists that estimated gross domestic product would rise 2.6% in 2011. Meanwhile, the Federal Reserve forecasts GDP to increase 3.0% to 3.6%. - *Securities Industry and Financial Markets Assoc. (SIFMA) 12/30*

Things We're Focused On - Market looking to “risk up” into the New Year possibly pushing yields back up. Bond funds have been seeing outflows in the last few weeks after seeing large and consistent inflows since mid 2009. - *GS Trader 1/3 (excerpts)*

Meet the Supporting Cast: Markets Continued to Benefit From Intervention in 2010 – Financial markets of just about every stripe pushed higher in 2010, marking a second year of recovery from the financial crisis. Investors can thank continued, unprecedented efforts by governments and central banks around the globe to keep their economies and financial markets afloat for those good returns. At some point, governments will look to reverse their stimulative strategies as their economies and markets can stand on their own.

In another indirect effect of global stimulus efforts, investors worried about long-term damaging effects, especially the possibility of higher inflation and exploding budget deficits, and bid up gold prices to record highs. Gold prices rose $325.90 per troy ounce last year, or 29.8%, to $1421.10.

"The markets and economies aren't being left to their own devices," says Jason DeSena Trennert, chief investment strategist at Strategas Research Partners. "Policy makers are trying to move heaven and earth."
-*Tom Lauricella, WSJ 1/3 (excerpts)*

Dodd-Frank Act – Over the Counter Derivatives Regulation - Given the complexity of the derivatives market, Congress delegated significant authority to regulators to determine how the Dodd-Frank Act should be applied. Businesses that use derivatives to reduce uncertainty ("end users") have been closely watching the rulemaking process, concerned that hedging could become too costly or burdensome. Most notably, end users are concerned that they will be forced to post margin for their hedges. This would result in the sidelining of substantial sums of cash-up to $1 trillion across all segments of the US economy--capital that could be deployed productively toward job-creating activities instead of sitting idle.

Congress responded to these concerns, but not as thoroughly or precisely as was hoped. It created an end-user exception to central clearing requirements, but failed to definitively replicate this exception throughout the legislation. Thus uncertainty remains over whether end users could be subject to the very requirements the exception intended to shield them from. Rep. Peterson observed: "[W]e have given the regulators no authority to impose margin requirements on anyone who is not a swap dealer or major swap participant."

However, preliminary signals from regulatory authorities suggest these statements of Congressional intent may not be heeded. Many end users remain deeply concerned that regulators will enact rules requiring these very firms that do not pose systemic risk to post margin. Federal Reserve Chairman Ben Bernanke: "The Board does not believe that end-users other than major swap participants pose the systemic risk that the legislation is intended to address." In the coming months, we shall see whether end user concerns are well founded. *- Chatham Financial 1/3 (excerpts)*

The Economic Week Ahead: Jan. 3 – Jan 7, 2011

Vanguard 12/25 - Friday's release of the Labor Department's monthly assessment of the **employment situation** will be next week's big news. Other news will include the latest on the Institute for Supply Management (ISM) Manufacturing Index, construction spending (Monday), factory orders, **FOMC minutes** (Tuesday), ISM Non-Manufacturing Index (Wednesday), and consumer credit (Friday).

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jan 03	10:00	Construction Spending	Nov.	-0.4%	0.2%	0.7%
Jan 03	10:00	ISM Manufacturing Index	Dec.	58.0	57.3	56.6
Jan 04	10:00	Factory Orders	Nov.	-0.6%	-0.3%	-0.9%
Jan 04	14:00	**FOMC Minutes**				
Jan 05	10:00	ISM Services Index	Dec.	56.0	55.7	55.0
Jan 06	08:30	Initial Claims	01/01	415K	405K	388K
Jan 06	08:30	Continuing Claims	12/25	4000K	4070K	4128K
Jan 07	08:30	**Nonfarm Payrolls**	Dec.	150K	135K	39K
Jan 07	08:30	Unemployment Rate	Dec.	9.9%	9.7%	9.8
Jan 07	08:30	Hourly Earnings	Dec.	0.1%	0.1%	0.0%
Jan 07	08:30	Average Workweek	Dec.	34.3	34.3	34.3
Jan 07	15:00	Consumer Credit	Nov.	$2.0B	-$2.5B	$3.4B

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
3-Dec	$ 8,095	$ 1,333	33	$ -	-
10-Dec	6,180	1,876	27	461	9
17-Dec	6,140	2,167	21	647	6
24-Dec	6,520	667	8	-	-
31-Dec	12,345	563	7	-	-

Have a great 2011!