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Weekly Newsletter

January 27, 2012

Weekly Comments

Solid gains in equities continued this week, after earnings estimates from companies like Caterpillar Inc., 3M Co., and Netflix were better than expected. The market also benefitted from economic data that remains modestly better. The Conference Board released its index of U.S. leading indicators for December, which rose for a third month and the outlook for the next three to six months rose 0.4 percent. The biggest gains continue in manufacturing and consumer spending and have helped lift consumer confidence. Durable goods orders for December increased 3.0 percent, more than the 2.0 percent increase analyst expected and November was revised upward to 4.3 percent from 3.8 percent.

Even with the stronger economic numbers Fed officials remain cautious about future improvement. Officials met this week to discuss and set monetary policy, which was shared through a statement released on Wednesday. The FOMC said, "While indicators point to some further improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment has slowed, and the housing sector remains depressed." The committee decided to keep the fed funds rate at 0 to 1/4 percent and now deems it likely it will keep rate exceptionally low at least through late 2014.

This was the first meeting where officials individually shared their future expectations for the fed funds rate. Expectations of the five Fed board members and 12 district bank presidents were as follows: Three felt rates should be raised in 2012, three feel an increase in 2013 will be warranted, five officials said rates should rise in 2014, four said the central bank should wait until 2015 and the remain two see an increase in 2016. Going forward, on a quarterly basis, officials will update their forecasts for the fed funds rate as the do with their growth estimates.

Policy makers also lowered their estimates for growth in 2012 to 2.2 percent to 2.7 percent from November's announcement of 2.5 percent to 2.9 percent. Inflation expectations were also lowered for 2012. Most expect inflation, measured through the personal consumption expenditures index, to be between 1.4 percent and 1.8 percent in 2012 from the previous estimate of 1.4 percent to 2.0 percent. Policy makers have set an ideal goal of inflation at 2 percent.

Next week the market will be focused on Friday's employment report. Current estimates are for no change in the unemployment rate at 8.5 percent and an increase in nonfarm payrolls of 150K.

Key Economic Indications Week of January 30, 2012

- 30- Personal Income & Spending
- 31- Consumer Confidence
 - 1- ISM Manufacturing
 - 2- Nonfarm Productivity
 - 3- Employment Report

Comments

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Market Rates

Numbers as of open 01/27/12

WORLD EQUITY MARKETS			LIBOR RATES		ECONOMIC HIGHLIGHTS THIS WEEK			
<u>INDEX</u>	<u>CURRENT</u>	<u>YTD</u>	1M	0.27000		<u>Survey</u>	<u>Actual</u>	<u>Prior</u>
Dow	12,734	4.23%	2M	0.40250	Pending Home Sales	-1.0%	-3.5%	7.3%
S&P 500	1,318	5.27%	3M	0.55110	FOMC Rate Decision	0.25%	0.25%	0.25%
NASDAQ	2,805	7.68%	4M	0.63150	Durable Goods Orders	2.0%	3.0%	3.8%
Nikkei	8,841	4.57%	5M	0.70730	Initial Jobless Claims	370K	377K	352K
FTSE 100	5,772	3.59%	6M	0.78525	Leading Indicators	0.7%	0.4%	0.5%
Hang Seng	20,501	11.21%	1Y	1.09920	GDP Q4	3.0%	2.8%	1.8%
SECTOR YIELD CURVES								
	AA-Rated			A-Rated				
	<u>Treasury</u>	<u>Municipals</u>	<u>Agencies</u>	<u>Industrials</u>	<u>Swap</u>			
3-Mnth	0.04		0.08	0.30				
6-Mnth	0.07		0.16	0.43				
2-Yr	0.21	0.58	0.34	0.60	0.54			
3-Yr	0.30	0.78	0.64	0.84	0.62			
5-Yr	0.77	1.15	1.15	1.56	1.07			
10-Yr	1.93	2.32	2.71	3.11	2.07			
30-Yr	3.09	4.29		4.33	2.83			

Maturity	Treasury	Agencies	Industrials	Municipals	Swap
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6-Mnth	0.07		0.16	0.43	
2-Yr	0.21	0.58	0.34	0.60	0.54
3-Yr	0.30	0.78	0.64	0.84	0.62
5-Yr	0.77	1.15	1.15	1.56	1.07
10-Yr	1.93	2.32	2.71	3.11	2.07
30-Yr	3.09	4.29		4.33	2.83

KEY INTEREST RATES		SPOT FOREX		RATES AND INDICES OF INTEREST				
Prime	3.25	Yen	77.0020		<u>Price/Rate</u>	<u>YTD</u>		
Fed Funds Target	0.25	Euro	1.3159	WTI Crude Current Oil Future	\$ 99.70	0.88%		
Fed Funds Effective	0.25	GB Pound	1.5714	Gold 100oz Future	\$ 1,729.90	10.41%		
Pri. Credit Disc. Rate	0.75	Canadian \$	1.0001	CRB Commodity Index	\$ 315.90	3.47%		
TREASURY AUCTIONS			NEW ISSUE AGENCIES AND CORPORATES					
	<u>Rate</u>	<u>Maturity</u>	<u>Price</u>	<u>Yield</u>	<u>Maturity</u>	<u>Structure</u>	<u>Yield</u>	<u>Spread</u>
3-Mnth	0.040%	4/26/2012	99.99	0.041%				
6-Mnth	0.070%	7/26/2012	99.965	0.071%				
LOCAL ISSUE MUNICIPALS COMING TO MARKET								
<u>Sale Date</u>	<u>Amount</u>	<u>Description</u>	<u>Maturity</u>					
				FHLMC	8/24/2016	4.5-NC2 (1X)	1.00	
				FHLMC	8/21/2018	6.5-NC2 (1X)	1.55	
				FHLMC	2/21/2020	8-NC2 (1X)	2.00	

Economic Calendar: Key Reports for the Month of February 2012

Mon	Tue	Wed	Thu	Fri
		1 ISM Manufacturing	2 Nonfarm Productivity	3 Unemployment Rate Factory Orders ISM Non-Manf. Composite
6	7	8	9 Wholesale Inventories	10
13	14 Advance Retail Sales Business Inventories	15 Empire Manufacturing Industrial Production	16 Housing Starts Producer Price Index	17 Consumer Price Index Leading Indicators
20	21	22 Existing Home Sales	23	24 U of Michigan Confidence New Home Sales
27	28 Consumer Confidence Durable Goods Orders	29 GDP QoQ (Annualized) Fed's Beige Book		

Comments