

09/03/10

The minutes from the August 10th FOMC meeting indicate the Fed was concerned about the economy, but more worried about sending the wrong signal about the state of the economy by adding to its balance sheet. Ultimately, policy makers decided to leave the size of the balance sheet unchanged by reinvesting principal from agency debt and MBS into Treasury securities. Debate centered on the impact additional purchases would have on the economy as well as whether such a move was warranted. Some members felt additional purchases would have a relatively small impact on the economy and some felt such a move should only be used if the outlook were to weaken appreciably further. The debate highlights the differing opinions amongst the committee members and the challenge facing Fed Chairman Bernanke in setting monetary policy. Fed officials seemed somewhat surprised by the weakness in second quarter GDP, but didn't feel it indicated a change in direction from a slow recovery. No members expressed an appreciable risk of deflation, but some felt an increased risk of disinflation.

Economic data released this week remained mixed. Personal income grew at a slower pace than expected and disposable income (income after taxes) dropped for the first time since January, indicating the lack of jobs is hurting American's ability to spend. The Conference Board's confidence index rose more than expected in August. The report indicated American's had grown less pessimistic on the employment outlook, even as current job prospects seem bleak. Factory orders for July increased less than expected on weak demand for business equipment.

Housing data for the week indicated some stabilization. Pending sales of existing houses unexpectedly rose in July from June's record low. The index of purchase contracts was up 5.2 percent, according to data from the National Association of Realtors. The jump indicates the housing sector maybe stabilizing following the end to the federal government's tax credit. Earlier in the week, the S&P/CaseShiller Home Price index for June was released and it indicated home prices in the 20 largest metropolitan areas increased at a 3.5 percent rate year-over-year. That is down from May's increase, but still adds to the belief that things are stabilizing.

Friday's highly anticipated employment report was better than expected, but still had some concerning components. The economy lost 54K jobs in August, better than the loss of 105K that was expected and better than last months original report of down 131K. The unemployment rate increased to 9.6% from 9.5%, which the market anticipated. Private payrolls climbed 67K after a revised 107K increase in July, according to data released by the Labor Department. On the negative side, part-time workers that would prefer full time jobs increased 0.02 percent to 16.7 percent and continued concern over the number of people dropping out of the workforce data.

Market Snapshots

Key Statistics			
	Current	Week	YTD
Prime Rate	3.25%	0.00%	0.00%
Disc. Rt. (Pri. credit)	0.75%	0.00%	0.25%
Fed Funds	0.125%	0.00%	0.00%
1-mo. LIBOR	0.26%	0.00%	0.03%
30yr Mortgage	4.32%	-0.04%	-0.77%

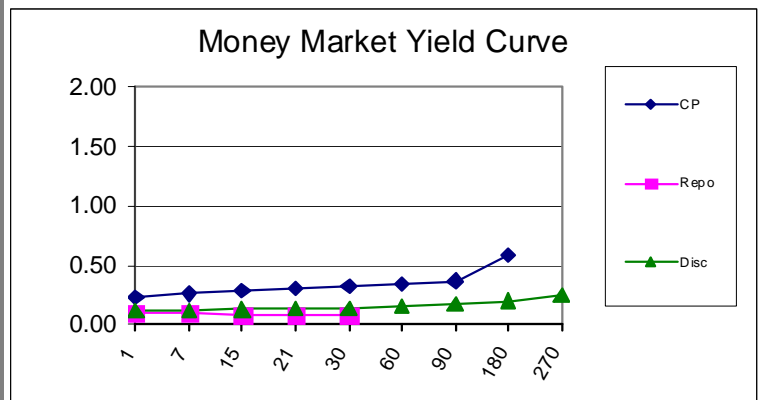
Equities	Index	Current	YTD %	YTD
	DJIA	10,320	-1.04%	-108
	S&P 500	1,090	-2.24%	-25
	NASDAQ	2,200	-3.04%	-69
	FTSE 100	5,394	-0.33%	-18
	CAC 40	3,651	-7.24%	-285
	DAX	6,101	2.42%	144
	NIKKEI 225	9,114	-13.58%	-1432
	HANG SENG	20,971	-4.12%	-901

	Rate	Days		Rate	Days
FNBO CD Rates	0.15	90	FCC Commercial Paper		
	0.27	180			
	0.31	360			
	0.51	540			
<i>SWEEP - 0.05</i>					

Treasury Auctions			
	Rate	Price	Yield
3 mo	0.145%	99.963	0.147%
6 mo	0.190%	99.904	0.193%

New Issue Agency Notes			
Agency	Coupon Rate	Maturity	Structure
FHLMC	1.10	12/16/13	3.25-NC1 (1X)
FNMA	1.25	03/20/14	3.5-NC1(1X)
FNMA	2.2	09/16/16	6-MC1 (1X)

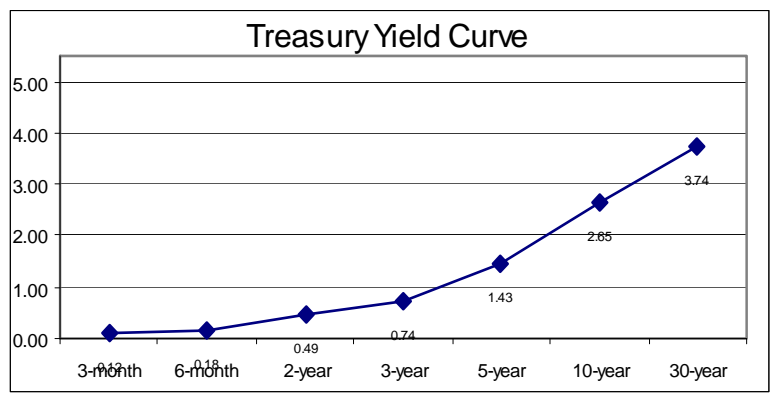
Money Markets			
Maturity (Days)	Commercial Paper	Agent Repo	Disc. Agency
1	0.23	0.10	0.12
7	0.26	0.10	0.12
15	0.29	0.08	0.13
21	0.30	0.08	0.14
30	0.32	0.08	0.14
60	0.34		0.16
90	0.37		0.17
180	0.58		0.20
270	0.86		0.25



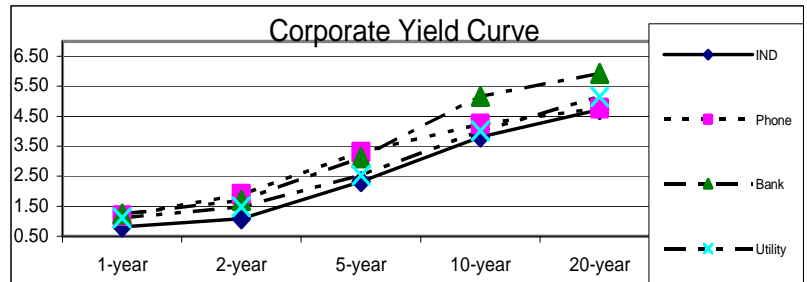
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Yield Curve Snapshots

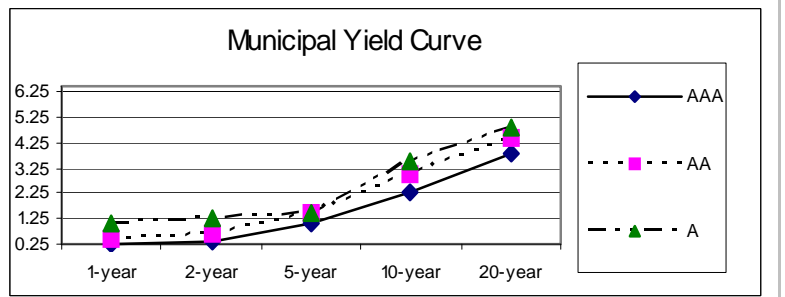
Treasury Securities		
	Yield	YTD
3-month	0.12	0.07
6-month	0.18	0.02
2-year	0.49	-0.66
3-year	0.74	-0.92
5-year	1.43	-1.28
10-year	2.65	-1.27
30-year	3.74	-0.89



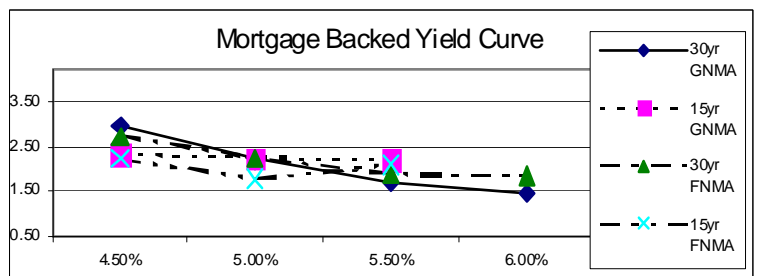
A-Rated Corporate Bonds				
	IND	Finance	Bank	Utility
1-year	0.81	1.18	1.24	1.11
2-year	1.08	1.90	1.70	1.48
5-year	2.32	3.30	3.11	2.54
10-year	3.81	4.24	5.17	4.02
20-year	4.73	4.77	5.93	5.15



Municipal Securities			
	AAA	AA	A
1-year	0.27	0.46	1.08
2-year	0.33	0.65	1.24
5-year	1.07	1.46	1.48
10-year	2.31	2.98	3.50
20-year	3.83	4.43	4.82



Mortgage Backed				
	GNMA		FNMA	
	30-YR	15-YR	30-YR	15-YR
4.50%	2.98	2.34	2.75	2.24
5.00%	2.23	2.26	2.26	1.79
5.50%	1.71	2.21	1.90	2.11
6.00%	1.47		1.86	



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Economic Calendar: Key Reports for the Month of September 2010

<i>Monday</i>	<i>Tuesday</i>	<i>Wednesday</i>	<i>Thursday</i>	<i>Friday</i>
		1 ISM Manufact.	2 Nonfarm Productivity Factory Orders	3 Employment Report ISM Non-manufact.
6 Labor Day	7 3 & 6 Mo Auction	8 Fed's Beige Book	9	10 Wholesale Inventories
13 3 & 6 Mo Auction	14 Advanced Retail Sales Business Inventories	15 Industrial Production	16 Producer Price Index	17 Consumer Price Index Univ. of Mich. Confid.
20 3 & 6 Mo Auction	21 FOMC Rate Decision Housing Starts	22	23 Leading Indicators Existing Home Sales	24 Durable Goods Orders New Home Sales
27 3 & 6 Mo Auction	28 S&P CaseShiller Home Price Index	29	30 GDP 2Q	

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