

DAILY GLOBAL COMMENTARY

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FOMC Meeting – Fed Chooses to Leave Plans to Purchase Securities Unchanged June 24, 2009

The Fed held the federal funds rate unchanged (0%-0.25%) as expected. The modifications to the policy statement were consistent with the incoming economic reports indicating that the pace of decline in activity has slowed.

Economy in general, June 24, 2009

“Information received since the Federal Open Market Committee met in April suggests that the pace of economic contraction is slowing.”

April 29, 2009

“Information received since the Federal Open Market Committee met in March indicates that the economy has continued to contract, though the pace of contraction appears to be somewhat slower.”

The Fed appears to be less concerned about deflation compared with the situation in April, given the modification of the statement today.

Inflation/Deflation, June 24, 2009

“The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.”

April 29, 2009

“In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.”

The federal funds rate is expected to hold steady for an extended period as indicated in the statement today: *“The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.”*

The Fed left its quantitative easing programs intact without expansions, for now. The policy statement reiterated the size of the programs targeted at purchasing mortgage-backed securities (\$1.25 trillion), agency debt (\$200 billion), and long dated Treasury securities (\$300 billion).

Sales of New Homes – Mixed Bag of News

Sales of new single-family homes were virtually flat in May (342,000 vs. 344,000 in April). Sales of new homes in March and April were revised down slightly. On a year-to-year basis,

sales of new single-family homes fell 34.7% matching the decline posted in April. The largest year-to-year drop was recorded in January 2009 (-45.5%).

Chart 1
New 1-Family Houses Sold: United States
 SAAR, Thous

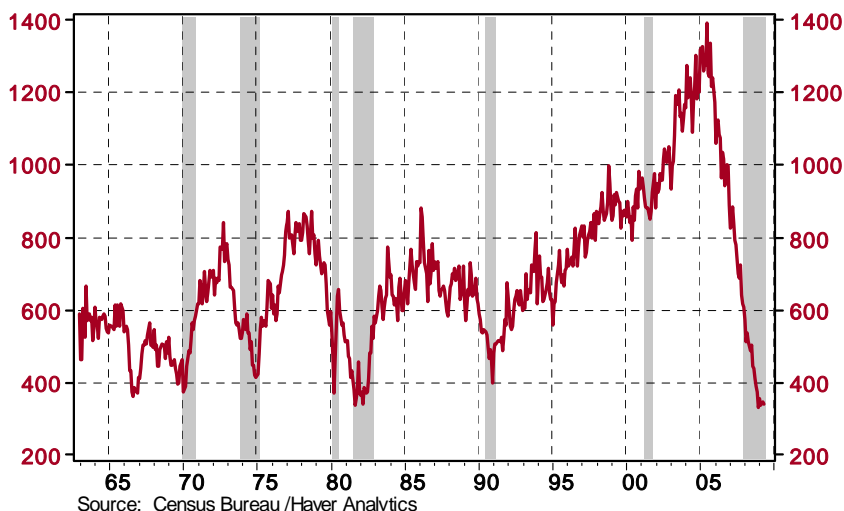
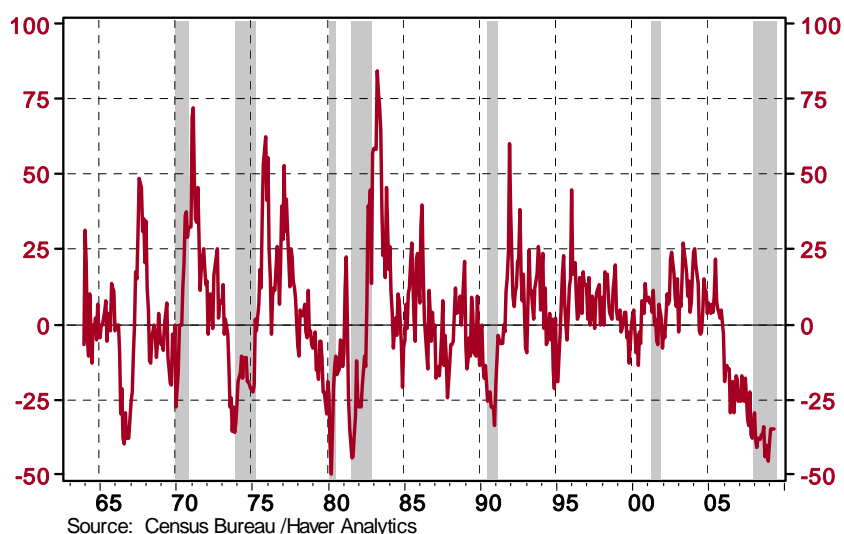


Chart 2
New 1-Family Houses Sold: United States
 % Change - Year to Year NSA, Thous

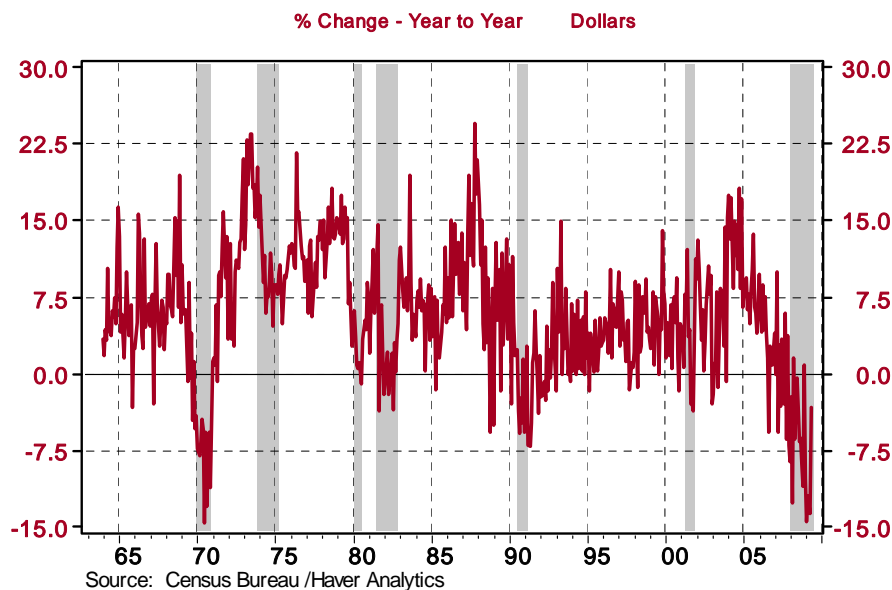


Regionally, sales of new homes fell in the South (-1.6%) but rose in other three regions, with sales in the Northeast (+28.6%) and Midwest (+18.6%) advancing at a more rapid pace compared with the West (+1.3%)

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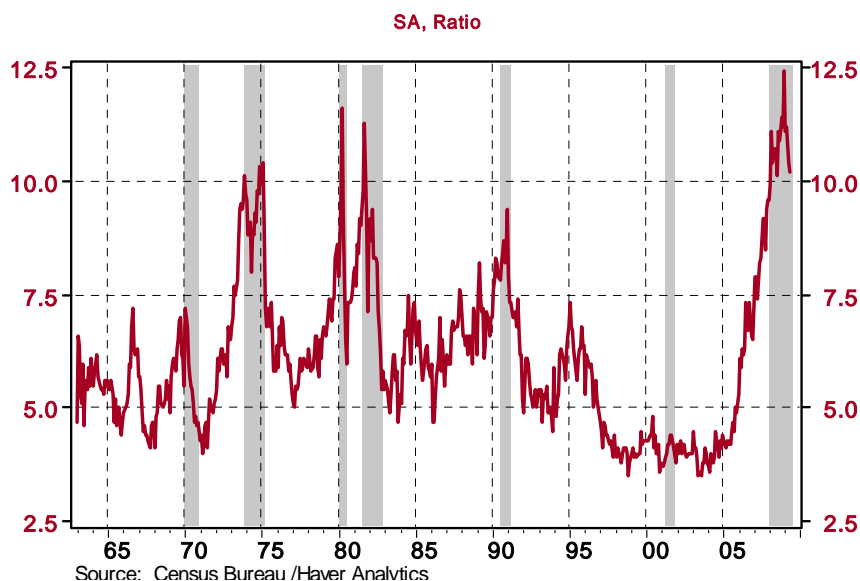
The median price of new single-family home was \$221,600 in May vs. \$212,600 in the prior month. From a year ago, the median price of a new single-family is down 3.4%, which is a deceleration in the pace of price declines given that in five out of the six months ended April there were double-digit drops in the median price.

Chart 3
New 1-Family Houses: Median Sales Price



The inventory of unsold new homes is down to a 10.2-month supply vs. the peak reading of a 12.4-month supply in January 2009.

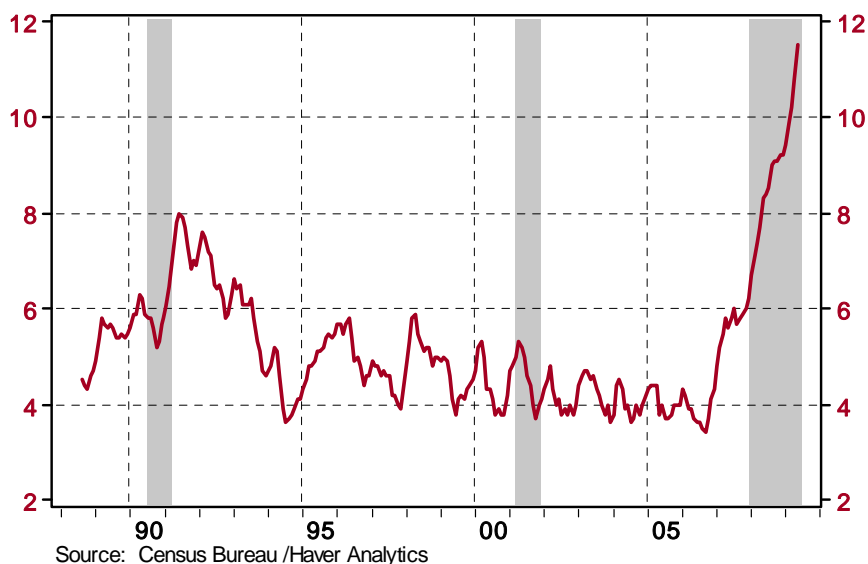
Chart 4
New 1-Family Houses For Sale: Months Supply



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However, the number of months that had lapsed before a completed home was sold in May hit a record high of 11.5 months, up from 8.3 months a year ago.

Chart 5
New 1-Family Houses: Median No of Months for Sale Since Completion
NSA, Months



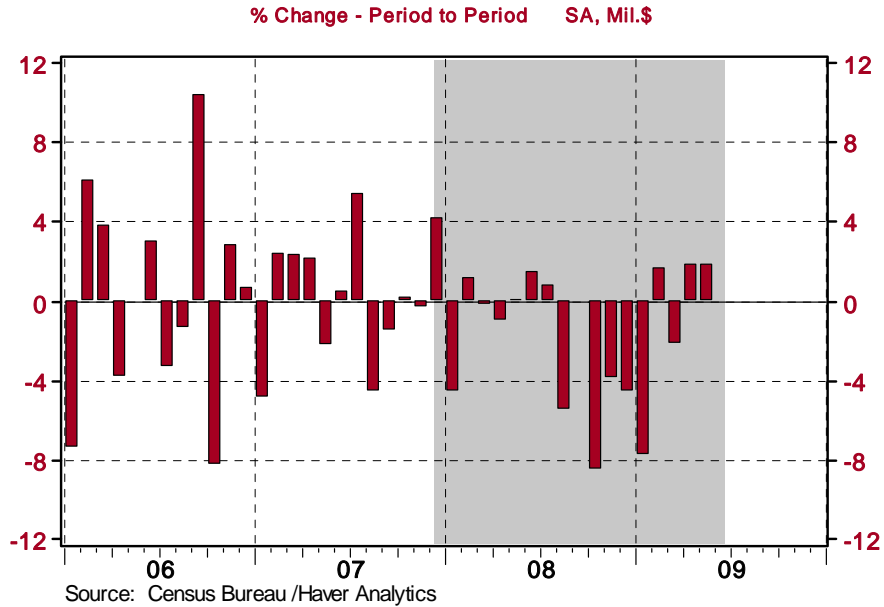
The main message from the May home sales report is that inventories of unsold homes are falling, sales are stabilizing at a low level, and additional price declines are nearly certain until the inventory situation improves.

Durable Goods Orders Gather Momentum, but Shipments Remain Weak

Orders of durable goods moved up 1.8% in May, matching the increase seen in the prior month. In addition to defense orders (+7.4%), bookings of aircraft (+68.1%) and gains in other components excluding autos (-8.1%) were the highlights of the report. Orders of all durable goods have increased in three out of the last four months.

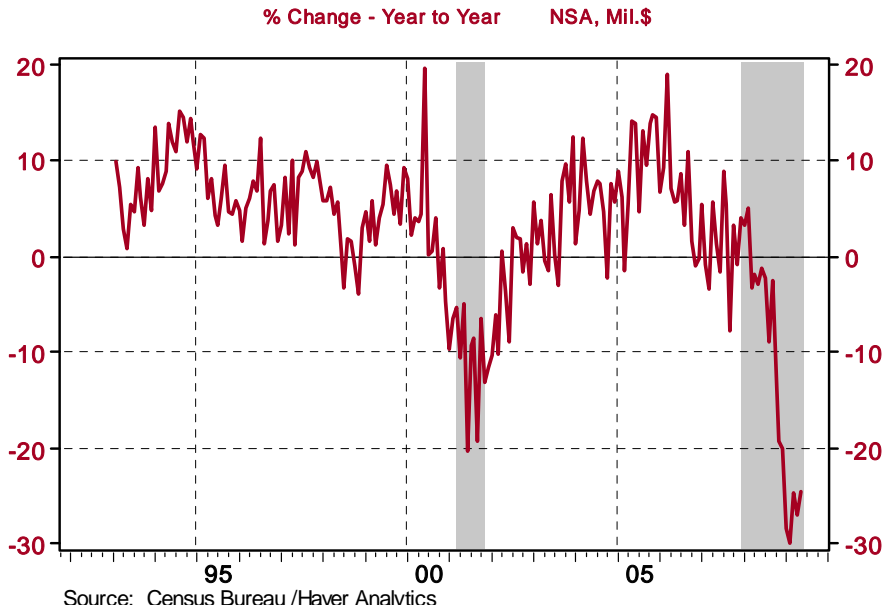
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Chart 6
Manufacturers' New Orders: Durable Goods



On a year-to-year basis, orders of durable goods appear to have established a trough in January (see chart 7).

Chart 7
Manufacturers' New Orders: Durable Goods



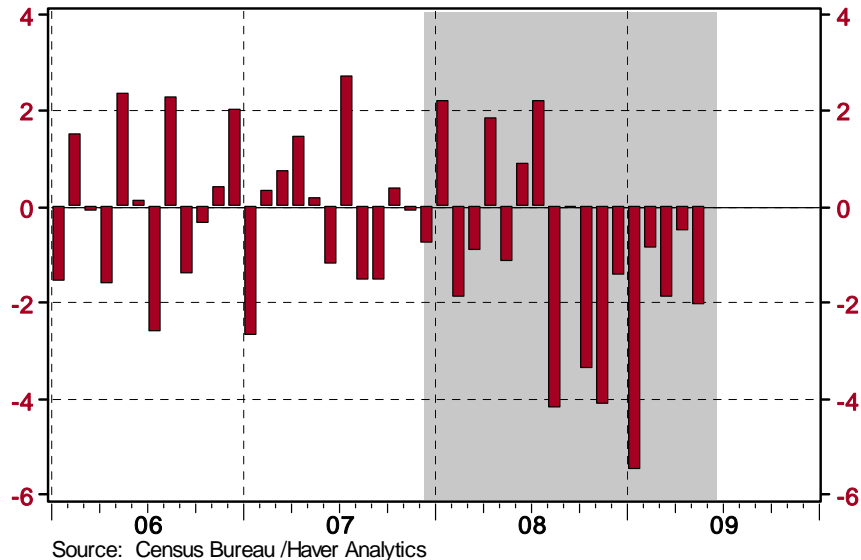
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DURABLE GOODS ORDERS - % CHANGE M-M					
<u>DATE</u>	<u>TOTAL</u>	<u>DEFENSE</u>	<u>NON-DEFENSE CAPITAL GOODS</u>	<u>NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT</u>	<u>COMPUTERS AND ELECTRONIC PRODUCTS</u>
Dec-08	-4.6	45.6	-10.3	-5.9	-6.8
Jan-09	-7.8	-40.5	-9.9	-12.3	-7.3
Feb-09	1.6	33.1	4.7	4.1	7.3
Mar-09	-2.2	-11.1	-1.0	-1.4	1.5
Apr-09	1.8	28.5	-2.9	-2.9	-3.0
May-09	1.8	7.4	10.0	4.8	2.2

Shipments of durables fell 2.1% in May, marking the tenth consecutive monthly decline. Shipments of non-defense capital goods excluding aircraft, the proxy for capital spending in GDP, inched up 0.3% in May after four monthly declines. Inflation adjusted shipments of non-defense capital goods excluding aircraft fell at an annual rate of 13.5% in the second quarter (based on April and May data) vs. a 36.4% plunge in the first quarter. This bodes marginally well for capital spending in the second quarter, which posted a 33.5% drop in the first three months of the year.

Chart 8
Manufacturers' Shipments: Durable Goods

% Change - Period to Period SA, Mil.\$



DURABLE GOODS SHIPMENTS- % CHANGE M-M				
<u>DATE</u>	<u>TOTAL</u>	<u>NON-DEFENSE CAPITAL CAPITAL GOODS</u>	<u>NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT</u>	<u>COMPUTERS AND ELECTRONIC PRODUCTS</u>
Dec-08	-1.5	2.6	0.1	0.7
Jan-09	-5.5	-6.6	-9.4	-4.6
Feb-09	-0.9	-3.3	-0.2	-2.2
Mar-09	-1.9	-0.9	-1.7	-1.0
Apr-09	-0.5	-2.6	-2.7	3.4
May-09	-2.1	-0.3	0.3	-0.7

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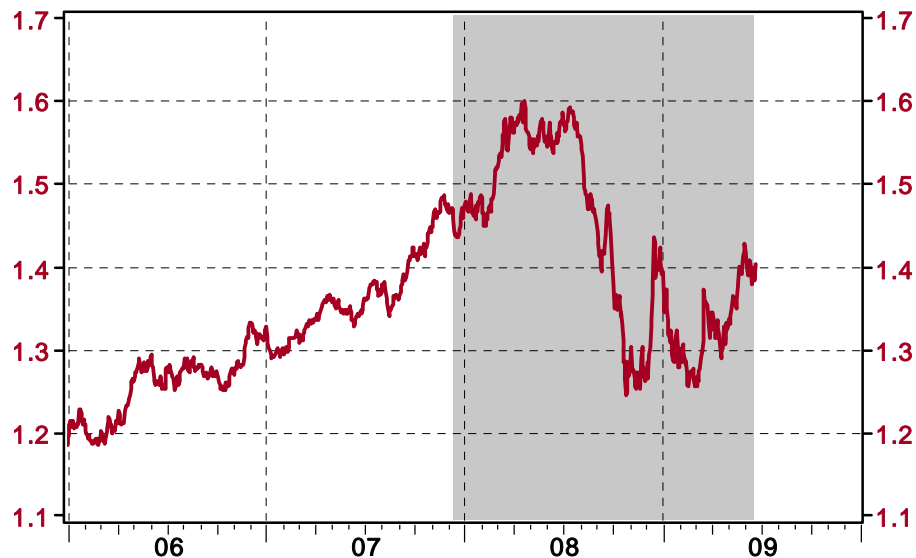
Pray, why is the Euro Strong Vis-à-vis the Greenback?

Understanding the behavior of foreign exchange is dicey and I confess I am at loss in this arena. But, today the ECB lent a whopping \$617 billion to banks ([ECB lends record €42bn to banks](#)). This is by no means a sign of strength and the underlying economy is in shambles with real GDP posting significant declines over the past year. Real GDP of the Euro Area 16 fell at an annual rate of 9.7% in the first quarter of 2009. The euro lost some ground today (\$1.39 per euro as of this writing) vs. (\$1.40 on June 23, 2009). The ECB is lending boatloads at 1.00%, implying quantitative easing without a zero interest-rate target.

Chart 9

Foreign Exchange Rate: European Monetary Union

US\$/Euro (I)



Source: Federal Reserve Bank of New York /Haver Analytics

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