

DAILY GLOBAL  
COMMENTARY

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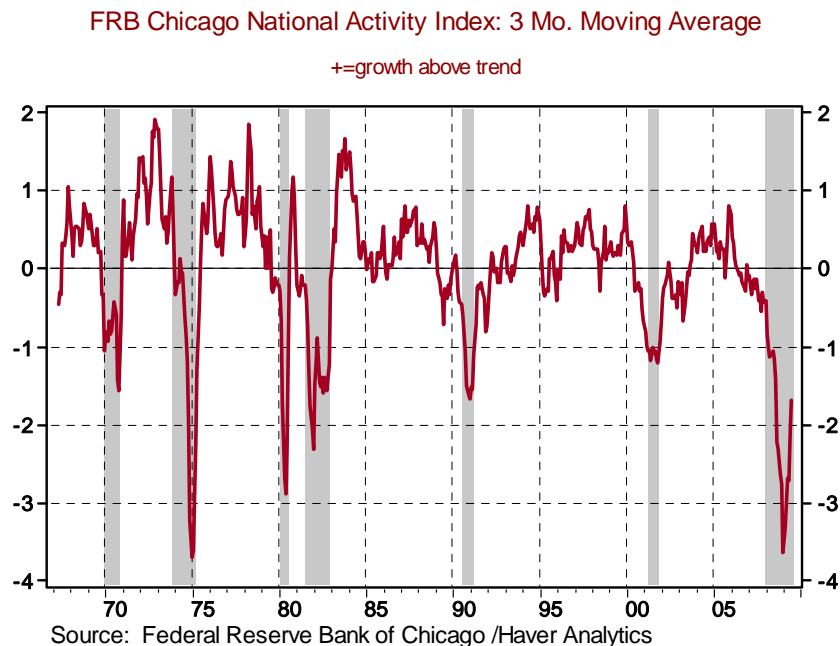
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## Chicago Fed National Activity Index – Confirms Positive Signals of other Reports

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The Chicago Fed National Activity Index (CFNAI) was -0.74 in July, up from -1.82 in June. All four major categories -- production and income, employment, personal consumption expenditure and housing, and sales, orders, and inventories -- advanced in July. Production-related indicators made a positive contribution, while the other three categories made negative contributions. The 3-month moving average of the CFNAI was -1.69 in July vs. -2.18 in June. From chart 1, the 3-month moving average turns positive after the end of a recession. The important news is that this index had registered a bottom and moving gradually toward zero.

Chart 1



### Some Market Spreads are Widening Again

At the short end, financial market spreads continue to narrow. However at the long end, the situation is different. Two representative long end market spreads -- Moody's Baa less 10-year Treasury note yield and junk bond yield less 10-year Treasury note yield -- have both widened during August 11-20 (see chart 2 and 3). The reasons are not clear as economic reports strongly suggest that underlying fundamentals are improving. Concern about the nature of economic recovery and projected status of balance sheets of banks could be factors influencing these spreads.

Chart 2  
**Moody's Baa less 10-year U.S. Treasury Note Yield**  
 percent

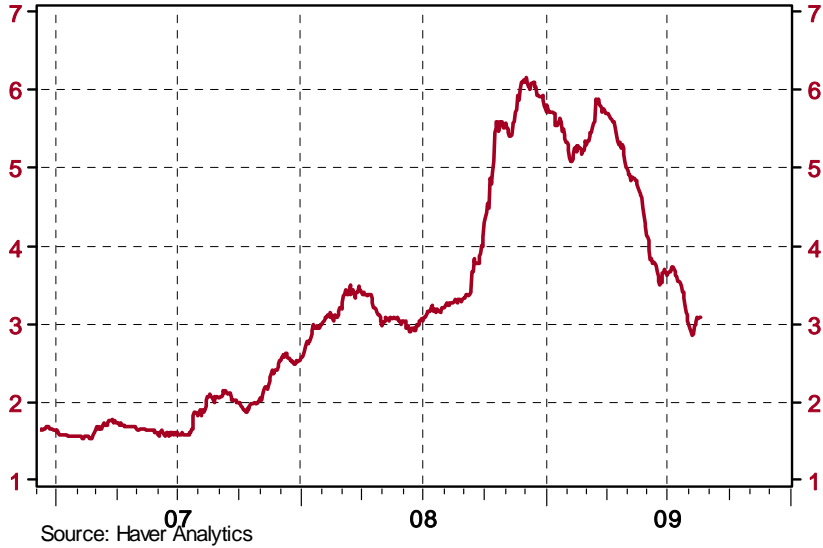


Chart 3  
**Merril Lynch Junk Bond yield less 10-year Treasury Note yield**  
 percent



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