



WEEK ENDING

20 JAN

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Global Market Review

Liquidity

## US Taxable

US economic data this week remained generally positive for growth. Jobless claims fell sharply in the week ending January 14. Initial claims declined by 50,000, to 352,000, the lowest level since early 2008. The four-week moving average dropped to 379,000 from 383,000. The housing market continued to show a modest rebound. Confidence among homebuilders rose for the fourth straight month. While December housing starts were down 4.1%, the more volatile multifamily starts declined 20.4%, while single-family starts rose for a third straight month. In addition, December existing-home sales climbed 5.0% while supply fell to 6.2 months from 7.2 months. Inflation reports were generally favorable. Headline CPI for December was unchanged, while the core rate rose 0.1%. While core PPI rose 0.3% on the heels of greater light-truck and medical costs, pipeline pressures showed moderation.

USD LIBOR levels again moved modestly lower. Three-month LIBOR rounded down 1 basis point to 0.56%. Activity across the money markets diminished this week as investors took a breather from the heavier pace seen earlier in the month. Spreads have tightened, as issuers have been faced with strong demand since the New Year began. Furthermore, overnight funding pressures were high this week, with general collateral repo trading in the mid-teens.

## US Tax Exempt

Tax-exempt money fund assets declined \$2.82 billion this week, bringing total assets to \$293.75 billion. The Securities Industry and Financial Markets Association (SIFMA) Index is now 0.07%. This increase of 1 basis point moved it off the all-time low of 0.06% where it had been the prior two weeks. Variable-rate demand note (VRDN) inventory has increased significantly from what it was the first two weeks of the year. Taxable commercial paper (CP) rates spiked this week, pulling some of the taxable money market interest out of the tax-exempt VRDN market. We can expect this

to continue if VRDNs don't move in step with levels rivaling overnight taxable product. We expect yields to continue cheapening next week as we begin to feel month-end technical factors in addition to the waning crossover interest. The new-issue market priced 14 deals worth \$191.4 million in money-market-eligible notes during the holiday-abbreviated week. The Town of Greenwich, CT (MIG1/SP1+) issued \$40 million of bond anticipation notes maturing January 24, 2013. This issued was priced to yield 0.13% but a dealer was high bid, and they've been unable to sell bonds at that level. The dealer has only been able to offload a portion of these bonds at 0.15%, taking a loss in putting them away to buyers. The Municipal Market Data AAA One-Year Index yield continued to hold steady at 0.20%.

## Eurozone

Eurozone		Change (bps)	20 Jan 12	13 Jan 12
LIBOR:	1 Month	-6	0.72	0.78
	3 Month	-4	1.13	1.17
	12 Month	-3	1.78	1.81
	Slope (1-12 Month)	3	106	103
OIS/LIBOR Spread:	3 Month	-4	79	83
	Swap Spread:			
	2 Year	-2	99	101
	5 Year	-7	79	86
Govt Bonds:	2 Year	7	0.22	0.15
	10 Year	13	1.89	1.77
	Slope (2-10 Year)	6	167	161
Current Market Pricing for Key Policy Rate:		Market consensus rate decrease in 1012		

Source: Bloomberg

The eurozone Harmonised Index of Consumer Prices (HICP) increased 0.3% MoM in December. However, the YoY measure eased to 2.7% in December from 3.0% in November. Core inflation was reported unchanged at 1.6% YoY in December. The ZEW Indicator of Economic Sentiment for the eurozone improved strongly to -32.5 in January from -54.1 in December. In Germany, the survey also beat expectations by improving to -21.6 from -53.8 over the same period. The ZEW current-situation component rose to 28.4 from 26.8 over the same period. Also, S&P downgraded nine European sovereigns, including France, Italy, Spain and Portugal, among others. According to S&P, the

downgrade was driven by insufficient policy advances. The agency highlighted that the initiatives undertaken by European policymakers have so far failed to address the ongoing stresses in the eurozone.

## UK

United Kingdom		Change (bps)	20 Jan 12	13 Jan 12
LIBOR:	1 Month	0	0.78	0.78
	3 Month	0	1.09	1.09
	12 Month	1	1.89	1.88
	Slope (1-12 Month)	1	111	111
OIS/LIBOR Spread:	3 Month	0	59	59
Swap Spread:	2 Year	0	84	84
	5 Year	-2	48	50
Govt Bonds:	2 Year	2	0.40	0.38
	10 Year	10	2.07	1.97
	Slope (2-10 Year)	8	167	159
Current Market Pricing for Key Policy Rate:		Market consensus beyond forecast period		

Source: Bloomberg

As had been widely expected, inflation fell sharply to 4.2% YoY in December from 4.8% YoY in November. The Retail Price Index (RPI) fell to 4.8% YoY from 5.2% YoY. Over the month, the greatest downward pressures came from energy and clothing prices. The YoY decline was also driven by the significant price

increases seen in December 2010 in anticipation of an increase in the standard value-added tax in January 2011 to 20% from 17.5%. The unemployment rate rose to its highest level since 1995. The International Labour Organization (ILO) unemployment rate for the three months through November rose to 8.4% from 8.3% the previous month. The total number of unemployed increased by 118,000 over the same period to reach 2.7 million. Earnings growth remained subdued, with the average weekly earnings slowing to 1.9% on a three-month YoY basis in November from 2.1% in October. Retail sales rose sharply in December and were broadly in line with expectations. Headline retail sales increased 0.6% MoM in December following a 0.5% MoM decline in November. Core retail sales, which exclude auto fuel, increased 0.6% MoM in December following November's 0.8% decline. Finally, Nationwide's consumer confidence index fell to 38 in December from 40 in the previous month.

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