

US Weekly Economic Update

9th August 2010

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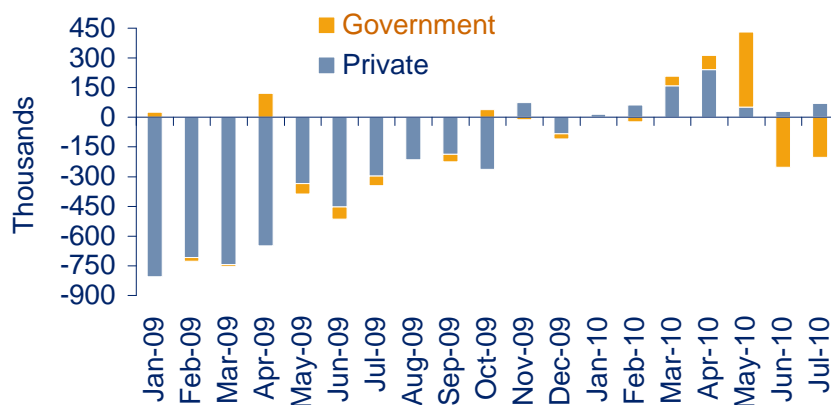
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- **Rates are likely to remain on hold, at 0%-0.25%, when the Federal Open Market Committee (FOMC) meets on 10th August.** The Fed's statement will probably re-iterate that it intends to keep rates "extremely low" for an "extended period". However, the FOMC may introduce a subtle shift in policy. The Fed appears to be considering re-investing the proceeds of the maturing mortgage bonds that it purchased as part of its asset purchase scheme to boost the economy. The funds would most likely be used to purchase Treasury securities, which would help keep down medium and longer-term interest rates, providing a modest additional stimulus.
- **Given recent data continues to disappoint, it's not hard to see why further policy easing is being considered.** Weak consumer spending and personal income data adds to growing evidence that the US economy will struggle in the second half of the year. Personal disposable income was flat in June, compared with a 0.4% average rise in the previous three months. It is the first time that personal incomes have failed to rise month-on-month since September 2009. A slight fall in the wages and salaries earned by workers was the culprit. Personal consumption also fell slightly m/m in June, by \$2.9 billion. Although this is less than 0.1%, its effects ripple large distances, as the US consumer remains the engine of global growth.
- **In addition, labour market data continued to show a jobless recovery.** July's widely watched non-farm payrolls release, reported that the number of jobs fell by 131,000 – double the losses anticipated, while revisions to last month's figures meant 221k jobs were lost in total in June.

Chart of the week: Non-farm payrolls suffer from government cut backs

Source: Thomson Datastream



MARKET RATES MONITOR	6 th August 2010	31 st July 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	2.86%	2.94%	3.52%
30-yr Mortgage (Freddie Mac)	4.49%	4.54%	5.25%
US dollar/Japanese Yen	85.12	86.66	95.20
Euro/US Dollars	1.33	1.30	1.42
British Pound/US dollars	1.60	1.57	1.66