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Week Ahead For US Financial Markets: March 3-7

US Financial Markets Summary

The week of March 3-7 will feature the release of the February non-farm payrolls on Friday and an unusually large number of Fed speakers on the calendar, headlined by Fed Chair Bernanke who will speak on 4 March at 0900 EST/1400 GMT, topic TBA.

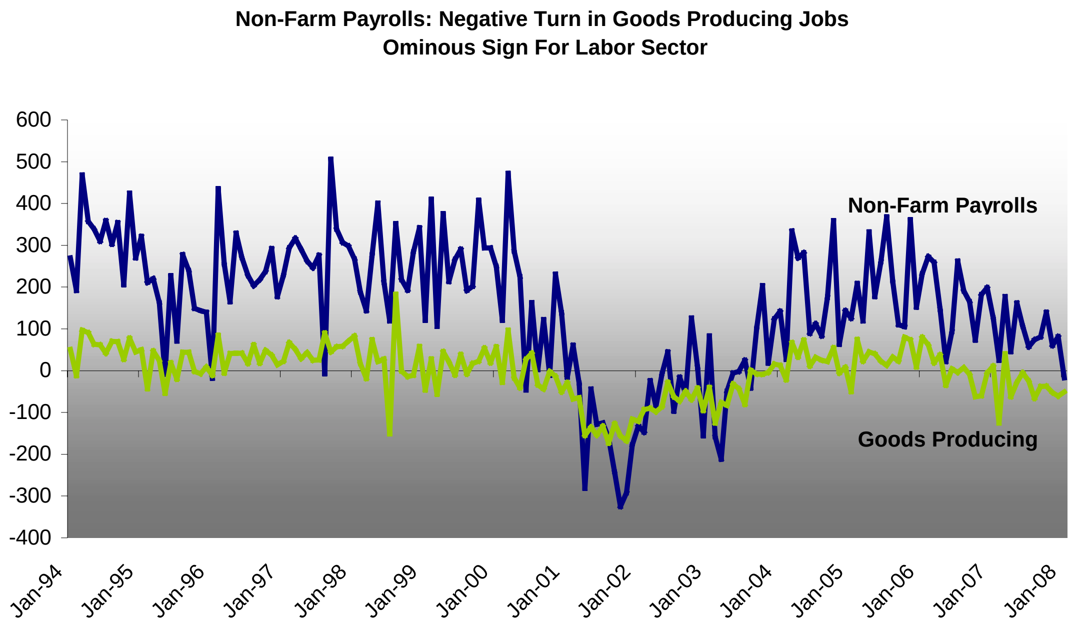
The week ahead will see a modest five days of economic data capped by the release of the February non-farm payrolls on Friday. The ISM will release its estimate of national manufacturing conditions on Monday and its estimate of service sector activity on Wed. Tuesday will see the publication of Feb. total vehicle sales, while Thursday will see the release of weekly jobless claims and the January estimate of pending home sales.

March 3 will see Philadelphia Fed President Plosser speak on monetary policy and FOMC Governor Krozner on the economic outlook.. The 4th will see Fed Chair Bernanke, Fed Gov. Mishkin, and Dallas Fed President Fisher all speak. The lone speaker on the 5th will be Cleveland President addressing the economic outlook. The 6th will see Boston President Rosengren and St. Louis Fed President Poole speak, topics TBA. The week will wrap up with five Fed speakers on 7 March. Kansas City's Hoeing, Dallas's Fisher, San Francisco's Yellen, Gov. Mishkn and Gov. Kohn all address the market.

Date	Time (EDT)	US Economic Data		IDEA	Consensus	Last
3/3	15:00	ISM Manufacturing	FEB	49.0	49	50.7
3/3	15:00	Construction	JAN	-0.7	-0.7	-1.10%
3/3	15:00	ISM Prices Paid	FEB	74.0	72	76
3/3		Tot Vehicle Sls	FEB	15.4	15.5	15.2M
3/3		Dom. Vehicle Sls	FEB	11.9	12	11.7M
5/3	13:15	ADP Empl. Change	FEB	0.0	40	126KR
5/3	13:30	Nonfarm Produ.	4Q F	1.8	1.8	- -
5/3	13:30	Unit Labor Costs	4Q F	2.1	2.1	2.10%
5/3	15:00	Factory Orders	JAN	-2.6	-1	2.30%
5/3	15:00	ISM Non-Manf. Comp	FEB	48.0	48	44.6
5/3	19:00	Fed's Beige Book		N/A	N/A	N/A
6/3	13:30	Jobless Claims	1-Mar	360.0		- -
6/3	15:00	Pending Home Sls	JAN	-0.5	-0.5	-1.50%
7/3	13:30	Nonfarm Payrolls	FEB	25.0	40	-17k
7/3	13:30	Unempl Rate	FEB	5.0	5	4.90%
7/3	13:30	Manuf. Payrolls	FEB	-25.0	-25	-28K
7/3	13:30	Avg Hrly Earnings	FEB	0.2	0.3	0.20%
7/3	13:30	Avg Weekly Hours	FEB	33.7	33.7	33.7
7/3	20:00	Consumer Credit	JAN	7.0	7.6	$4.5B

Source: Consensus Is Via Bloomberg, IDEAglobal.

Chart of the Week



ISM Manufacturing: February

The ISM estimate of national manufacturing conditions will be published 3 March at 1000 EST/1500 GMT. Our forecast of national manufacturing conditions indicates that contraction in the industrial sector is well underway and we expect that the new orders component in the ISM survey will sink to 48.5 and underscore the 49.0 forecast for the headline that we expect to see upon the release of the data. Our estimate carries risk to the downside and the climbing costs of energy and commodities will weigh heavily on the sentiment of purchasing mangers in the survey. We do expect that the headline, new orders and production will all fall beneath the breakeven mark of 50 in line with other regional manufacturing surveys. When the economy enters recession, the risk is not that the market will observe a slow steady deterioration in economic conditions, but a sharp turn in sentiment characterized by sharp drops in macro surveys. We have seen this in recent months in consumer sentiment, and would not be surprised to see a sharper than expected downturn in national manufacturing conditions in February.

Construction Spending: January

The January estimate of total construction spending will be released 3 March at 1000 EST/1500 GMT. We expect that outlays on construction will decline by –0.7%. In recent months, the market has tended to discount the release of the construction report due to the multi-year correction in the housing sector. However, we urge our clients to focus closely on the non-residential report in January. For the better part of two years, construction activity in the commercial sector has tended to just about offset retrenchment observed in the residential sector. Yet, with the tensions in the credit sector continuing to mount, we think the next problem in the investment sector will come in a reduction in risk taking and speculation among commercial builders due to a lack of access to capital.

Total Vehicles: February

The February report on total vehicles sales will be released throughout the day on 3 March. After a very weak month of purchasing activity during the first month of 2008 we expect consumers to modestly pick up purchases of autos on the back of discounts put forward by builders attempting to clear the large build up of inventories currently on hand. We anticipate that total sales will see a slight increase to 15.4mln and domestic sales should increase to 11.9mln for the month. Nevertheless, given the current trend in real spending which looks to be stalling, the risk for the series is still to the downside.

Non-Farm Productivity/Unit Labor Costs Q4'08
The final estimate of non-farm productivity and unit labor costs will be released 5 March at 0830 EST/1330 GMT. We expect productivity to increase 1.8% and unit labor costs to advance 2.1% for the final quarter of 2008. The reduction in employee hours should remain one of the primary catalysts behind the sub-trend 1.8% increase in productivity. During the final quarter of 2008 firms reduced hours at the fastest pace since 2003. The reductions in employee hours and the restrained increase in unit labor costs is consistent with our bearish outlook on demand for labor and validates the Fed's move to reduce the policy rate to what we expect will be 2.0% before the FOMC is done. However, the decline in productivity increases risks to the inflation outlook and should acutely sharpen sensitivity in the market to the continued surge in headline and core pricing.

Factory Orders: January
The January estimate of factory orders will be published 5 March at 1000 EST/1500 GMT. A unusually weak month in demand for civilian aircraft and a nearly –20.0% decline in new orders out of the Defense Department should underscore a very shaky start for factory orders to begin the year. We anticipate that new orders will decline by –2.6% for the month and that shipments of non-defense capital goods, ex-aircraft will be lucky to see positive territory for the month.

ISM Non-Manufacturing: February
The February estimate by the Institute for Supply Management of service sector activity will be released 5 March at 1000 EST/1500 GMT. We expect the headline estimate of service sector activity by the ISM to modestly increase to 48.0 for the month on the back of a slight up tick in new orders. The combination of a soft labor market, increasing headline costs and a sharp decline in consumer sentiment will underscore a still bearish reading of economic activity in the area that represents the predominate majority of the US economy.

Fed Beige Book
The Fed Beige Book will be released 5 March at 1400 EST/1900 GMT. We expect the Beige Book to accentuate the continuing strains in the credit market and the downside risks to growth due to further deterioration in the housing sector and the labor market.

The rather heavy schedule of Fed speak, headlined by multiple Congressional testimony from Mr. Bernanke leaves little to the imagination regarding the topics of interest in the Fed beige book. The focus will be the ongoing problems in financial markets attributed to the willingness, or lack thereof, of investors to bear risk due to difficulties in valuing complex or illiquid financial products. With the bias of monetary policy decisively tilted towards growth, the market will also inspect the pricing environment directly linked to rising energy and commodity prices. Given that the Fed has indicated revised down is forecast on growth and admitted that inflation will in all probability remain above tolerance levels, the release of the various forecasts from the regional Fed presidents should be more than a little interest to market participants.

Jobless Claims

The initial claims series for the week ending 1 March will be released on the 6th at 0830 EST/1330 GMT. We anticipate that the series will fall to 360 for the week. The strong move to the upside over the past few weeks is an ominous signal for a rapidly softening labor market. For the second time in five weeks, initial claims surged above 370k. Typically recessions are associated with moves in the jobless claims headline towards 400K. The series is perilously close to that level and the continuing claims series is not solidly pointing towards a 5.0% rate of unemployment with a an upside bias towards 5.1% over the next sixty days.

Pending Home Sales: January

The January report on pending home sales will be released 6 March at 1000 EST/1500 GMT. We expect that pending sales will contract by –0.5%. The slight upward revision in both the new and existing home series, should provide limit the downward slide in the pending home sales series. We estimate that the series will decline by –0.5% for the month. While, the median price of a home has continued to fall, the rate environment in which individuals purchase homes has been not so kind. The reductions in the federal funds rate have not engendered a similar decline in long-term interest rates. The 30 year fixed rate actually increased in the aftermath of the Fed's emergency rate cut Jan 18 and we believe that potential buyers are quite wary of moving back into the market, which will create downside risk for the series for the foreseeable future.

Non-Farm Payrolls: February

The non-farm payrolls report for February will be released 7 March at 0830 EST/1330 GMT. The major moving event of the trading week will be the February payrolls data, which we believe will see movement back into positive territory to 25k and the unemployment rate will remain at 5.0% for the month. Thus far, with an incomplete data set to make the final forecast, employment indicators inside the manufacturing sector are pointing towards another month of job losses, with an expectation that the ADP estimate of payrolls will arrive flat for the month. We think that firms have become quite cautious regarding the addition of any additional labor and anticipate that whatever residual strength remains in the service sector will be offset by the ongoing decline in the goods producing, construction and manufacturing sectors.

Consumer Credit: January

The January estimate of demand for consumer credit will be released 7 March at 1500 EST/2000 GMT. Demand for consumer credit should see a modest increase on the back of individuals resorting to credit to fund current consumption. However, that will be offset by a weak demand for non-revolving credit during a month when demand for auto loans dropped sharply. Thus, we anticipate that demand for credit will increase by $7.0bln for the first month of 2008.

Fed Talk and Supply

The week of March 3-7 will see one of the heavier weeks of Fed speak in some time. The week in Fed talk will feature Fed Chair Bernanke speaking 4 March at 0900 EST/1400 GMT, topic TBA.

March 3 will see Philadelphia Fed President Plosser speak on monetary policy at 0800EST/1300 GMT and FOMC Governor Krozner will speak on the economic outlook at 1400 EST/1900 GMT. The 4th will see Fed Chair Bernanke speak at 0900 EST/1400 GMT, Fed Gov. Mishkin, topic TBA at 1215 EST/1715 GMT and Dallas Fed President Fisher (voting member) speaking on inflation and growth at 1300 EST/1800 GMT. The lone speaker on the 5th will be Cleveland President (voting member) addressing the economic outlook at 1930 EST/0030 GMT. The 6th will see Boston President Rosengren (non voting member), topic TBA at 0800 EST/1300 GMT and then again at 1930 EST/0030 GMT and St. Louis Fed President Poole (non voting member), will speak, topic TBA, at 2000 EST/0100 GMT. The week will wrap up with five Fed speakers on 7 March. Kansas City's Hoeing (non voting member) will speak at 000 EST/0500 GMT, Dallas's Fisher at 0300 EST/0800 GMT, San Francisco's Yellen (non voting member) at 0500 EST/1000 GMT, Gov. Mishkn at 0830 EST/1330 GMT and Gov. Kohn at 1000 EST/1500 GMT. The topic for each speaker on 7 March has yet to be announced. The US Treasury and Freddie Mac will see no action for the week. Fannie Mae will announce the float of a 2,3,5 or 10yr note worth $3.0bln on 3 March.