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Week Ahead For US Financial Markets: April 7-11

US Financial Markets Summary

In what will be a quiet week of data and Fed talk, the week of April 7-11 will feature the release of the March FOMC minutes and the ICSC chain store sales for March.

The week ahead in US financial markets will see if the tentative signs of a bottom in equity markets can hold in the aftermath of another month of negative payrolls numbers and continuing bad news on the inflation front and the US housing sector. The primary release of the week will be the minutes from the March FOMC meeting. The market will be looking to the minutes to provide information from the Fed on its below expectations cut of 75bps and discussion of the forced liquidation of Bear Stearns. Expectations for the Federal Funds rate have been quite volatile of late and the market will be looking for any hint regarding the final phase of the Fed rate cutting campaign that it can. Tuesday will see the publication of the February pending home sales, while Wednesday will see the release of the wholesale inventories for the same month. Thursday will feature the publication of the Feb. trade balance and the weekly jobless claims. The week will conclude with the March import price report and the preliminary estimate of consumer confidence by the University of Michigan. The week in Fed talk will be a relatively truncated affair that will kickoff with the only substantial remarks currently scheduled for the week are those to be made by Dallas President Fisher who will address the condition of the US economy 9. The US Treasury will auction of a 10yr TIPS note worth \$6.0bln. Fannie Mae will announce the float of a 2y, 3yr, 5yr or 10yr note worth a potential \$3.0bln on 7 April.

Date	Time	Data	Month	IDEA	Consensus	Last
7/4	19:00	Consumer Credit	FEB	7.0	5.5	6.9B
8/4	14:00	Pending Home Sls	FEB	-1.5	-0.8	0.0%
8/4	18:00	Minutes of March 18 FOMC Meeting				
9/4	14:00	Wholesale Inv.	FEB	0.5	0.5	0.8%
10/4	12:30	Trade Balance	FEB	-57.1	-58.0	-\$58.2B
10/4	12:30	Jobless Claims	5-Apr	390	N/A	407K
10/4	18:00	Monthly Budget	MAR	-84.0	-81.0	-96.3
11/4	12:30	Import Price m/m	MAR	2.0	2.0	0.2%
11/4	14:00	UMich Confid	APR P	69.0	69.0	69.5

Source: Consensus Is Via Bloomberg, IDEAglobal.

Pending Home Sales

The February pending home sales report will be released 8 April at 1000 EDT/1400 GMT. We expect that pending sales will fall -1.5%.

Although the data in the home sector over the past few months looks to be bottoming out on the back of reduced rates for conforming loans and price declines just about across the board, we do believe that calls of a market bottom are premature. Consumers have reacted rationally to the sharp changes in the value of real estate assets and we do not expect to see a stabilization of the market until the price of homes declines considerably. At this juncture, the narrative in the housing sector is not about rates. It is about supply and prices. In many areas of the country the value of real estate assets will decline given the elevated levels of inventories and the 2.0mln foreclosures in 2008 and a total of 3.0mln over the next two years that we expect to occur. Save the demolition of housing in select urban and suburban locales, the iron logic of supply and demand will prevail regardless of the very interesting analysis over the “bottom” in the housing sector that has seemed to gain traction over the past month.

FOMC Minutes

The minutes to the March 18 FOMC meeting will be published 8 April at 1400 EDT/1800 GMT. We anticipate that the minutes will provide insight into the unscheduled March 10 FOMC meeting.

The March FOMC minutes should prove to be no ordinary affair. The minutes will provide insight into the dynamic events that encapsulated a very eventful month of March. The market will be closely examining the markup of the unscheduled March 10 meeting and the subsequent March 18 meeting to ascertain why the FOMC felt comfortable cutting the policy rate by 75bps in contrast with market expectations of a 100bps cut. At first blush, the market has adjusted its expectations of future cuts in the federal funds rate for the April 30 meeting to 25bps, but in the aftermath of another negative payroll report, the traders have moved back into the 50bps territory.

Just as important will be whatever portion of the discussion that is not redacted by the committee regarding the “forced liquidation” of Bear Stearns and the statutory authority to guarantee such an arrangement to a private financial actor. Perhaps in a financial crisis a bit of opaqueness on the part of central bankers tends to facilitate efficacious action, but we doubt that the green curtain at the Fed will prove durable under what will surely be a continuing series of questions surrounding the actions the Fed took to prevent what at the time felt like a potential system meltdown.

Wholesale Inventories

The February wholesale inventories report will be released 9 April at 1400 EDT/1800 GMT. Our forecast implies that inventories will increase 0.5% for the month.

The inventory overhang that acted as a deadweight to overall output in the fourth quarter of 2008, should see a stimulate a much more cautious rebuilding of inventories in February. We anticipate that wholesalers will increase stocks by 0.5% with the non-durable category seeing a cooler month after two straight double digit increases.

Trade Balance

The trade balance report for the month of February will be released 10 April at 0830 EDT/1230 GMT. We expect the deficit to fall to -\$57.1bln.

The weak dollar and a still relatively robust global economy should foster another month of solid improvement in the US trade deficit. Our forecast implies that the shortfall should decline to -\$57.1bln with a risk to the downside for the trading day. More importantly, the relatively “benign “ month in the oil sector should foster the fourth straight improvement in the ex-petroleum subcomponent and in both real measures of trade.

Jobless Claims

Initial claims for the week ending 5 April will be published 10 April at 0830 EDT/1230 GMT. We expect that claims will move to 390K.

The move above 400K in the initial claims data arrived a bit earlier that we had expected and is a solid indication of the continuing softness in the labor picture that we expect throughout the remainder of the year and most of 2009. We now expect that initial claims will find a new range of 370-400K over the next several weeks, before establishing an above 400K range that will define the latter part of the recession. We do urge our clients to remember that employment is a lagging indicator and that both initial claims and the payroll data will continue to worsen for a good while after the overarching economy has bottomed out.

US Budget Statement

The US budget deficit for the month of March will be released 11 April at 0830 EDT/1230 GMT. We anticipate that the deficit will increase to -\$84.0bln.

The combination of stepped up federal outlays and falling revenues on the back of a decelerating economy should stimulate an increase in the US government budget deficit for the month of March to -\$84.0bln. The risk for the trading day will be to the downside and we no expect that total federal outlays for 2008 will push the deficit towards \$500.00.

Import Prices

The March non-farm payrolls report will be released 4 April at 0830 EDT/1230 GMT. We anticipate that payrolls will fall -70K and the rate of unemployment will increase to 5.0% for the month.

The acute increase in the cost of commodities and oil during the March sampling period should provide one of the more sharp increases in the cost of imported goods seen in some time. Our forecast implies that inflation will increase 2.0% m/m and 15.1% y/y. While we do expect the ex-petroleum estimate to increase 0.8%, however muted the core costs are it will be lost in the shadow of the very real increase in the cost of goods and services produced abroad.

UMICH Consumer Confidence

The preliminary estimate of consumer confidence by the University of Michigan will be released 11 April at 1000 EDT/1400 GMT. We expect that

Typically the arrival of spring coincides with a sunnier disposition of the American public. However, the recent rise in the cost of gasoline and a soft labor market on top of a deteriorating market for housing should combine to produce one of the gloomier estimates of consumer sentiment than we have seen in some time. Our forecast for the University of Michigan's consumer confidence headline implies a slight decline to 69.0, with the economic expectations and economic outlook both trailing down to 60.0 and 84.1 respectively.

Fed Talk and Supply

The week of April 7-11 will see a very light week of Fed talk that will feature remarks on the US economy by Dallas FRB President Fisher on April 9.

The week in Fed talk will be a relatively truncated affair that will kickoff with the perfunctory remarks by San Francisco FRB President Yellen (non-voting) and FOMC Gov. Kohn 7 April at 1730 EDT/2130 GMT to celebrate the opening of the SF Fed's Seattle Branch. The only substantial remarks currently scheduled for the week are those to be made by Dallas President Fisher (voting member) who will address the condition of the US economy 9 April at 1330 EDT/1730 GMT and then provide opening remarks before a trade conference in Dallas 11 April at 0900 EDT/1300 GMT. The US Treasury will auction of a 10yr TIPS note worth \$6.0bln. Fannie Mae will announce the float of a 2y, 3yr, 5yr or 10yr note worth a potential \$3.0bln on 7 April.