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Joseph Brusuelas - Chief US Economist
Tel: 212-835-1307 - E-mail: jbrusuelas@ideaus.com

Week Ahead For US Financial Markets: Feb 11-15

US Financial Markets Summary

The major event for the week of Feb 11-15 will be the bittersweet valentine for US markets presented by Fed Chair Ben Bernanke when he testifies before the US Senate February 14 at 1000 EST/1500 GMT. The primary data release of the week will be the publication of the January advance retail sales report which we expect to fall by –0.3%.

The week ahead will feature a solid set of data releases and Fed speak. Beside the aforementioned events, the market will focus on the January budget statement (Tuesday), the December trade balance and weekly jobless claims (Thursday). The week will be closed with the release of the January import price report and the February. Freddie Mac will see a potential REMIC issuance week with new notes worth an estimated $1.0bln. The US Treasury and Fannie Mae will see no action for the week.

Date	Time(EST)	US Econ Data	IDEAglobal	Consensus	Previous
12/2/2008	15:00 PM	US Budget Statement (Jan)	$31.20	$32.50	$38.20
13/2/2008	8:30 AM	Retail Sales (Jan)	-0.3	0	-0.4
13/2/2009	8:30 AM	Retail Sales Ex Auto	-0.20	0.20	-0.40
13/2/2008	10:00 AM	Business Inventories (Dec)	0.40	0.40	0.40
14/2/2009	8:30 AM	US Trade Balance (Dec)	-$60.50	-$61.00	-$63.10
14/2/2010	8:30 AM	Jobless Claims (9-Feb)	345	na	356
15/2/2008	2:15 PM	Import Prices (Jan)	0.40	0.4	0
15/2/2009	8:30 AM	Empire Manufacturing (Feb)	8.2	8.3	9
15/2/2010	8:30 AM	TICS Flows (Dec)	0.3	0.3	0.6
15/2/2011	9:00 AM	Industiral Production (Jan)	0.1	0.1	0
15/2/2012	9:15 AM	Capacity Utilization (Jan)	81.4	81.4	81.4

Source: Consensus Is Via Bloomberg, IDEAglobal.

US Budget Statement: January

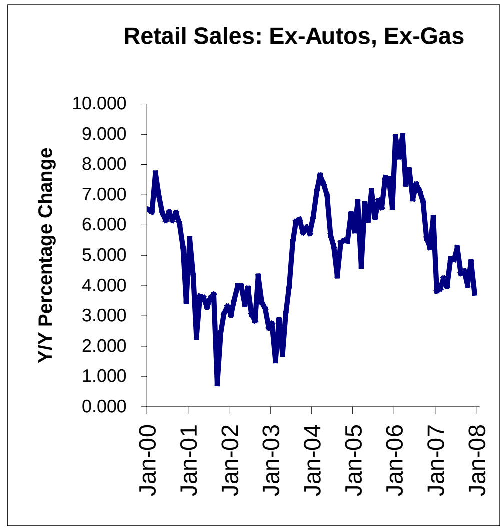
The US budget statement for the month of January will be published 12 February at 0830 EST/1330 GMT. We anticipate that the monthly budget will arrive in the black to the tune of $31.2bln.

The monthly budget statement should see a second consecutive month in the black on the back of quarterly tax payments. However, the year ahead for the fiscal deficit does not look bright. We anticipate that as revenues slow on the back of contraction in the domestic economy and the increase in outlays associated with the prospective economic stimulus package that the budget deficit for the fiscal year could swell to over $400.00bln dollars.

Retail Sales: January

The advance retail sales report for January will be released 13 February at 0830 EST/1330 GMT. We anticipate that headline will decline –0.3% and the core will fall by –0.2%

Consumers facing the duress of headline costs, falling home prices and tighter credit conditions will facilitate a second straight disappointing month for retailers in January. Our forecast indicates that headline sales will decline –0.3% and core sales will fall –0.2% We do not expect to see retailers bailed out by a surge in spending associated with holiday gift cards. Given anecdotal reports of consumes using gift cards to purchase basic foodstuffs and other perishables, the stage is set for a pullback in spending commensurate with the bearish readings in consumer confidence and outlays on services during the first month of the year.



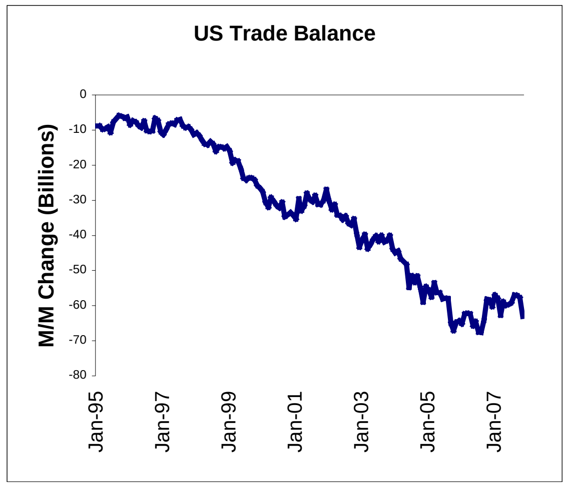
Our estimate is predicated on a concern that the risk to the downside for the January release is outsized and that it may be led by upper end and wealthy consumers who have begun to pull back in light of the market correction and the likelihood of another year of falling home prices in side a difficult refinancing environment for those sitting on non-conforming jumbo mortgage notes. One of our preferred bellwethers, Nordstrom's saw –6.6% and –4.1% declines in same store sales during the first month of the year and our other indicators of upper income consumption such as Saks and Neiman Marcus saw soft increases during the post holiday season that were dependant on discounting. We anticipate that this may be a ominous sign of darker days ahead for consumption in front of what looks to be a very difficult first half of 2008.

Business Inventories: December
The December report on business inventories will be released 13 February at 1000 EST/1500 GMT. We expect that inventories will climb 0.4% for the month.

The inventory correction that played an outsized role in the barely there output in Q4'07 should see retailers provide an upside limit to growth in inventories for the final month of the year. We anticipate that inventories will climb 0.4% for the month with retailers providing a second straight negative contribution to the series, which should offset the solid buildup among manufacturers and wholesalers. We anticipate that the inventory correction should run its course by the end of January.

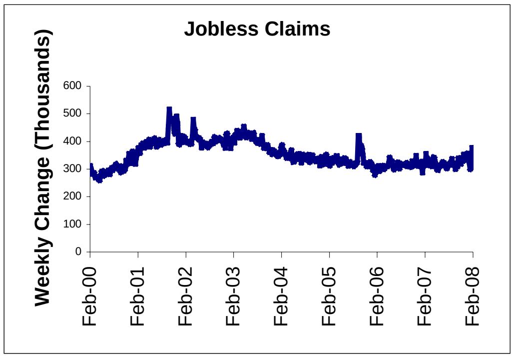
US Trade Balance: December
The December trade balance report will be released 14 February at 0830 EST/1330 GMT. We expect the trade balance to improve to –$60.5bln for the month with the risk to the downside.

A weak dollar, a modest improvement in the price of oil and solid demand for domestically produced manufactured goods should combine to provide a boost to net exports during the final month of 2007. Our forecast indicates that the total trade balance should decline to –$60.5bln for the month with the risk to the downside. We expect that demand for durable goods and civilian aircraft will be the primary facilitators for an improvement in the nominal and real dollar goods balance.



The politically sensitive series of bilateral trade balance should see second straight month of improvement, which should be accented by the modest decline in the price of oil. Trade with the Pacific Rim countries, ex-Japan should real improvement in the deficit, as should terms of trade with the EU, Canada and emerging markets.

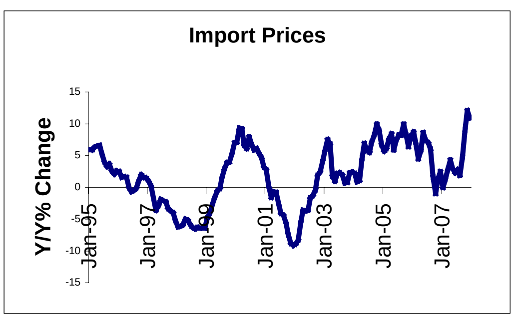
Jobless Claims: February 9
Initial claims for the week ending 9 February will be released 14 February at 0830 EST/1330 GMT. We anticipate that claims will fall to 340 for the week.



The final week for the February non-farm payrolls sampling period should see initial claims fall to 340K. We think that this will confirm the accelerating softness in the labor sector and is indicative of what we anticipate will be a 330-360K range that will characterize the series over the next few months.

Import Prices: December

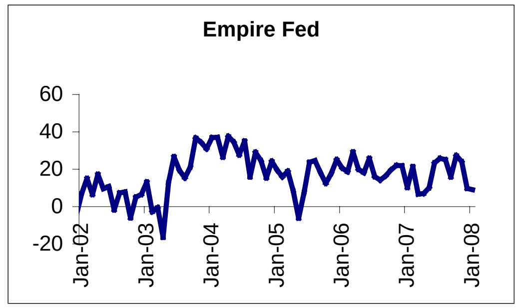
The import price report for the month of January will be published 15 February at 0830 EST/1330 GMT. We anticipate that import prices will increase 0.4% for the month.



After a brief reprise in December we expect that import prices will increase 0.4% m/m. The mid month sampling period should capture the increase in oil prices, along with a weak dollar, should be the primary facilitators of a modest increase in the cost of goods imported from abroad.

Empire Manufacturing: February

The February report on regional manufacturing conditions from the NY Fed will be released 15 February at 0830 EST/1330 GMT. We expect that the headline will fall to 8.2 for the month.



The general fall in expectations of domestic demand should outweigh the improvement in the prices paid and prices received category and culminate in a fall of the general business conditions headline to 8.2 for the second month of the year. We expect that a flat month of new orders, with risk to the downside should cast a long shadow over the one-month improvement in the pricing picture. In past months a decline in prices paid, which we expect to fall to 34.91, would tend to partially offset any concerns among purchasing mangers. However, with the economy in recession, the fall in prices is a function of declining demand and we anticipate that the there is considerable risk to the downside for the overall report.

Industrial Production/Cap U: January

The January report on industrial production will be released 15 February at 0915 EST/1415 GMT.

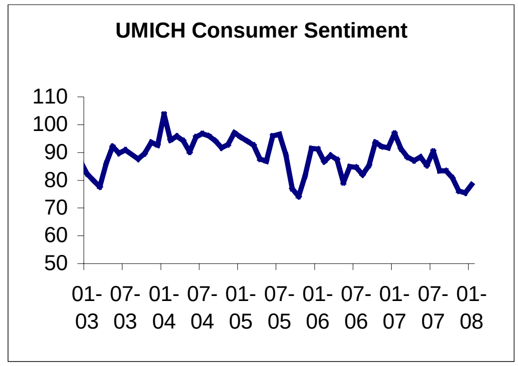
Industrial production should increase 0.1% and capacity utilization should hold steady at 0.4%.

The decline in domestic demand should underscore a modest increase in industrial production of 0.1% in January. At this juncture the only real positive in industrial sector is demand from the external sector for machinery and computer electronic products on the back of a weak dollar. However, the fall in the domestic production of motor vehicles and parts should just about offset whatever momentum a weak dollar and solid demand from abroad can generate. Thus capacity utilization should hold steady at 81.4 and the Fed can find some comfort in the fact that overall resource utilization is easing at a time when the Fed will need to send the real federal funds rate into negative territory by the middle of the year to offset the contraction currently underway in the economy.

UMICH Consumer Sentiment: February (Preliminary)

The preliminary estimate of consumer confidence by the University of Michigan will be released 15 February at 1000 EST/1500 GMT. We expect that sentiment will increase to 79.0.

The modest easing in oil and gas prices during the February sampling period should provide a gentle boost to sagging consumer confidence. We expect that the headline will increase to 79.0 while both the economic conditions and outlook should fall for the month. Perhaps more important, will be the path taken by the one year and five year ahead inflation expectation estimate within the survey. We expect that the one-year will hold at 3.4% and the five-year will remain at 3.0%.



Fed Talk and Supply: Feb 11-15

Fed Chair Ben Bernanke will testify before the Senate 14 February at 1000 EST/1500 GMT.

Fed Chair Ben Bernanke will provide a bittersweet valentine for US financial markets when he testifies before the US Senate on 14 February, time TBA. Also on the schedule to speak will be, St. Louis Fed President Poole (non-voter) who will speak on central banking, Monday at 1800 EST/2300 GMT. Tuesday will see San Francisco President Yellen (non-voter) speak on the economic outlook at 1105 EST/1605 GMT. Thursday will also see Chicago President Evans (non-voter) comment on the economic outlook and FOMC Gov. Mishkin who will speak at 1245 EST/1745 GMT, topic and time TBA on 15 February, will wrap up the week. Freddie Mac will see a potential REMIC issuance week with new notes worth an estimated $1.0bln.

The US Treasury and Fannie Mae will see no action for the week.