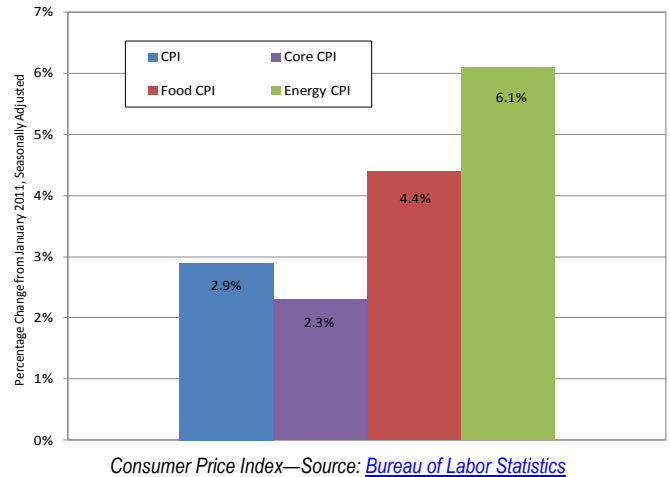
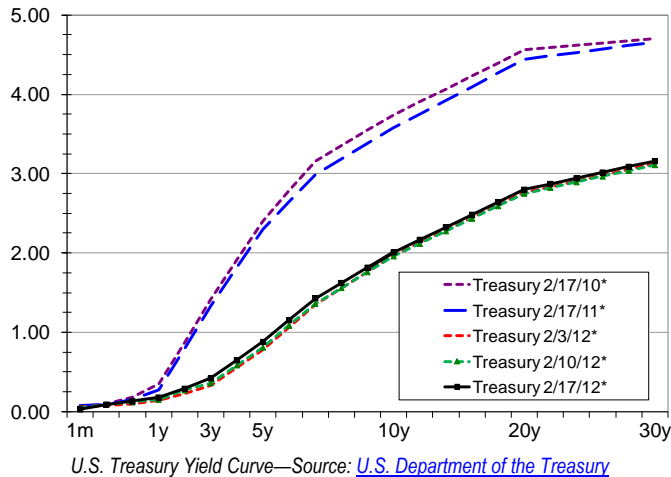










The Big Picture: Yield Curve & Consumer Prices



Measure	Numerical Trend	Current Trend	Commentary
Consumer Price Index January 2012 <i>Source: Bureau of Labor Statistics</i>	<i>Percentage Change from Previous Month Seasonally Adjusted</i> Jan 12: +0.2% Feb 12: 0.0% Jan 11: +0.3%		Consumer prices have increased 2.9% over the past year, the smallest 12-month comparable since last March. In January, energy CPI grew 0.2%, as a 0.9% jump in gasoline prices was largely counterbalanced by a 2.9% drop in the price of utility delivered natural gas. Food prices also increased 0.2% as prices of “food at home” (e.g., grocery stores) were unchanged but “away from home” food (e.g., restaurants) prices grew 0.4%. Core CPI increased 0.2% in January and has risen 2.3% since January 2011. Among core goods, prices of used cars declined for the 5 th straight month (falling 1.0% in January). Apparel prices jumped 0.9% during the month.
Producer Price Index January 2012 <i>Source: Bureau of Labor Statistics</i>	<i>Finished Goods Percentage Change from Previous Month Seasonally Adjusted</i> Jan 12: +0.1% Feb 12: -0.1% Jan 11: +0.8%		The small increase in the price of finished producer goods was thanks to declines in the price of both energy (-0.5%) and food (-0.3%). Prices of core finished goods grew 0.4%, the largest increase since July. The biggest contributor to the increase in the core index was the 2.0% jump in the price of pharmaceutical preparations. PPI has grown 4.1% over the past year, while the core index was up 3.0%. Earlier in the production cycle, PPI for intermediate goods declined 0.4% in January while the index for crude goods was up 1.5%.

Import and Export Prices January 2012 <i>Source: Bureau of Labor Statistics</i>	<i>Import Prices</i> <i>Percentage Change from Previous Month</i> Jan 12: +0.3% Dec 11: -0.1% Jan 11: +1.5%		An 1.2% increase in petroleum import prices pushed the overall price of imported fuel up 1.0%. Net of fuel, import prices inched up 0.1%. Imported vehicles prices grew 0.5% while those for imported food jumped 1.0%. Import prices have grown 7.1% over the past year, while the price of non-fuel imports was up 2.9%. Export prices grew 0.2% in January and were up 2.5% over the past year.
Retail Sales January 2012 <i>Source: Census Bureau</i>	<i>Percentage Change from Previous Month</i> <i>Seasonally Adjusted</i> Jan 12: +0.4% Dec 11: 0.0% Jan 11: +0.8%		Retail sales increased at their fastest pace since October, with strong sales across most retail segments. Among the best performers were general merchandisers (+2.0%), food/beverage retailers (+1.3%), and sporting goods/hobby retailers (+1.1%). Sales at furniture stores slipped 0.2%. Sales at auto dealers declined 1.1%—net of autos, retail sales increased 0.7% (the best month for the metric since last March). Retail sales have increased 5.8% over the past year and 5.5% after netting out sales at car dealers.
Industrial Production January 2012 <i>Source: Federal Reserve</i>	<i>Percentage Change from Previous Month</i> <i>Seasonally Adjusted</i> Jan 12: 0.0% Dec 11: +1.0% Jan 11: +0.2%		Sharp declines in production at utilities (-2.5%) and in mining (-1.8%) matched the gains in the manufacturing sector (+0.7%). Much of the jump in manufacturing output can be tied to the 6.8% surge in auto production, which contributed to the 1.8% jump in the production of durable goods. Non-durable goods output slipped 0.2%. Capacity utilization was 78.6%, unchanged from December.
Housing Starts January 2012 <i>Source: Census Bureau</i>	<i>Thousands</i> <i>Seasonally Adjusted</i> <i>Annualized Rate</i> Jan 12: 699 Feb 12: 689 Jan 11: 636		The recent momentum in housing starts continued in January. While starts of single-family units slipped 1.0% in January to 508,000 units (SAAR), the pace was 16.3% ahead of a year earlier. Starts of multi-family units grew 8.5% in January to 191,000 units (-4.0% from a year earlier). The number of permits issued grew 0.7% to 676,000 units (+19.0% year-to-year). 530,000 homes (SAAR) were completed in January, down 12.0% from December.
Treasury International Capital Flows December 2011 <i>Source: Department of Treasury</i>	<i>Net Long-term Securities Transactions</i> <i>Billions</i> Dec 11: +\$17.9 Nov 11: +\$61.3 Dec 10: +\$62.5		Foreign investors shed \$21.0 billion in long-term U.S. securities from their portfolios in December, with private investors decreasing their holdings by \$11.5 billion and official investors dropping \$9.5 billion in the same. The contraction was the result of foreign investors dropping \$20.7 billion in corporate bonds, \$16.6 billion in Treasury securities and \$11.0 billion in equities. Foreign investors, meanwhile, added \$27.2 billion in agency bonds.
Business Inventories December 2011 <i>Source: Census Bureau</i>	<i>Percentage Change from Previous Month</i> <i>Seasonally Adjusted</i> Dec 11: +0.4% Nov 11: +0.3% Dec 10: +1.1%		At the end of December, business inventories totaled \$1.556 trillion, up 7.7% from a year earlier. Manufacturing inventories increased 0.1% in December and were up 9.4% year-to-year. Retailers expanded inventories 0.2% in December and 3.5% year to year while wholesalers added 1.0% to their inventories in December and 10.0% since December 2010. The inventory-to-sales ratio of 1.26 was down 2-basis points from a year earlier.

Economic Commentary edited by Kevin Roth

Even though January's 0.2 percent increase in the consumer price index (CPI) was the fastest pace of growth since a 0.3 percent increase in September, inflation remained well in check during the month. Indices for both food and energy each increased by 0.2 percent during the month as did the core index. The modest overall increase in energy prices came even though CPI for gasoline grew for the first time since September (+0.9 percent). (Any recent trip to a gas station confirms that this upward trend is continuing in February). Beyond gasoline and certain other energy products, the only other product groups with particularly large price increases during January were apparel (+0.9 percent), medical care commodities (+0.6 percent) and food away from home (e.g., restaurants, +0.4 percent).

The January reading of producer prices told a similar story, with the index for finished goods inching up by only 0.1 percent. The core index for finished goods grew at its fastest pace since July at +0.5 percent, but the BLS ties much of that increase to pharmaceutical preparations, light motor trucks and household appliances. The producer price index (PPI) for finished goods was up 4.1 percent over the past 12 months while that for core goods has grown 3.0 percent during the same time period.

By comparison, the CPI has increased by 2.9 percent during the 12 months through January. This was the smallest 12-month comparable since last March, reflecting what had been until recently a moderation in energy prices. Core consumer prices were up 2.3 percent over the same period, which was not only the largest 12-month comparable since September 2008 but slightly above the Federal Reserve's long-term inflation target.

It was following the late January meeting of the Federal Open Market Committee that the Fed stated an inflation rate "at or below the 2 percent level [is what] the Committee judges [is] most consistent with its statutory mandate." The [minutes](#) for that meeting were released last week and highlighted just how quickly the FOMC may move to initiate another round of quantitative easing or some other accommodative monetary action, with some voting members inching to take action now. Toward the end of the minutes was this line: "A few members observed that, in their judgment, current and prospective economic conditions—including elevated unemployment and inflation at or below the Committee's objective—could warrant the initiation of additional securities purchases before long." Other members would need to see the pace of economic growth to slow significantly before supporting any additional action. Whatever the case, only one voting member (Jeffrey Lacker) did not support the majority decision to include in the FOMC's statement that it was likely the fed funds target rate would remain near-zero percent until at least late 2014.

After slowing down during the holiday season, retail sales regained some momentum in January. The Census Bureau reported last Tuesday that retail sales increased 0.4 percent in January, the biggest month-to-month



AFP Training Upcoming Webinar



February 28 3:30 - 4:30 p.m. ET CREDITS: 1.2 CTP/CCM 1.0 CPE

Defection from the EURO – Treasury Preparations

Insights focused on the risk the Euro breakup poses to treasury organizations, its affect on sharing operational cash and hedge and derivative accounting concerns. Also how to raise awareness with peer organizations, senior management and the board.

Speakers:

Helen Kane President Hedge Trackers, LLC	Catherine Portman Global Head of Treasury Juniper Networks
---	---

www.afponline.org/training

increase since October. Removing the volatile sales at auto dealers brightened the picture even further: retail sales net of autos were up 0.7 percent, the best since last March. Net of both autos and gas, retail sales increased a still robust 0.6 percent. The total seasonally adjusted sales volume of \$401.4 billion in January was up 5.8 percent from a year earlier.

The best month-to-month retail performers were general merchandisers (+2.0 percent), grocery stores (+1.3 percent), sporting goods retailers (+1.1 percent), restaurants/bars (+0.6 percent) and electronics stores (+0.5 percent). Sales at gas stations jumped 1.4 percent, thanks to the aforementioned higher gas prices. On a year-to-year basis, the strongest retail segments were restaurants/bars (+8.2 percent), building materials/hardware stores (+8.1 percent) and furniture retailers (+7.8 percent).

Confidence of small business owners improved slightly in January, according to the latest [Survey of Small and Independent Business Owners](#) from the National Federation of Independent Business Owners. The headline index grew by 1/10th of a point to a seasonally adjusted reading of 93.9 (1986 = 100). Indices for hiring plans, plans to expand inventories, earning trends and whether it was a good time to expand all declined, while indices for expected economic conditions, expected retail sales, current inventory and current job openings each improved. The press release described small business confidence as being in a “lull,” hurt by the “stalemate” in Washington and there being “no path to fiscal sanity.”

Meanwhile, manufacturing activity grew at a healthy pace in January. The Federal Reserve reported last week that manufacturing production increased 0.7 percent during the month, including a 6.8 percent surge in vehicle production. Other manufacturing sectors also enjoyed production increases during the month; including, fabricated metal products, machinery, computer/electronic products, electrical equipment/appliances and furniture. Manufacturing production has increased 4.5 percent over the past year.

Another segment showing some life is housing. The Census Bureau estimates housing starts increased 1.5 percent in January and were up 9.9 percent from January 2011 levels. This explains the five-month surge in homebuilder sentiment as measured by the National Association of Home Builders' [Housing Market Index](#). The headline index increased four points in February to a seasonally adjusted reading of 29. The index has increased by 15 points since September and reached its highest level since May 2007. Note that a reading of 29 remains well below a reading consistent with a “good” market (as defined by the NAHB, the index reading would need to rise above 50 for that). In its press release, the trade group characterized the results as “encouraging” but warned that a number of factors continued to weigh on the housing market, such as what it termed “below market appraisals,” difficulties of buyers to qualify for mortgages and foreclosed properties competing with new home sales.

The number of residential properties subject to foreclosure activity increased 2.8 percent in January to 210,941 units according to [RealtyTrac](#). This was up three percent from December but down 19 percent from January 2010. One in every 624 housing units was subject to a foreclosure filing in January, with the highest proportion of homes receiving a foreclosure notice being in Nevada (1 in every 198 units), California (1 in every 265 units), Arizona (1 in every 325 units) and Georgia (1 in every 328 units). In its press release, the company noted that recently finalized mortgage and foreclosure legal settlements would likely lead to a “pattern of increasing foreclosures” in the coming months.

[The Week in Corporate Finance](#) edited by Brian Kalish

This may be the week where the word “optimism” crept back into our everyday vernacular. Are we finally beginning to see those “green shoots” truly begin to take root and flourish? One can certainly hope, though to be cautious, we have trotted down this path before in the past four-plus years only to be swept away by some unforeseen geo-political or economic flare-up.

In the equity markets, there are a number of key benchmark levels that we are hoping to surpass in the near future. The Dow is pushing the 13K mark, as we touched a near four-year high of 12,967 on Friday; the NASDAQ is pushing 3K and reached an eleven-year high of 2,962 (though still off quite a bit from its all-time high of 5,048 reached back in March 2000); the FTSE 100 (footsie) is closing in on 6K and closed at a near one-year high at 5,905; the DAX (Deutscher Aktien Index) is heading back toward 7K, settling at 6,848; and the Nikkei 225 has passed through the 9K barrier and is well on its way towards 10K (though one must keep in mind that the Nikkei actually peaked at 38,957 back in December 1989. (Think Bobby McFerrin's "Don't Worry, Be Happy").

Part of the reason for the positive outlook for the U.S. is the continuing stream of strong economic indicators being reported. The Weekly Initial Unemployment Claims report came in stronger than expected at -13K to 348K, the lowest level since early 2008. The report also broke-through the important 350k barrier, as a number lower than 350k has historically indicated a strong and self-sustaining job market.

U.S. Treasuries saw a bit of money move away from safety, but net-net it was a relatively uneventful week. For the week, the 2-year Treasury note was up 2bps to 29bps; the 5-year note was up 4bps to 86bps; the 10-year note was up 2bps to 2.01 percent; and the 30-year bond was up 1bp (for the second consecutive week) to 3.15 percent.

Events in Europe continue to maintain their high profile. While it was another week of fits-and-starts in regard to Greece, the overall feeling was one of guarded optimism. While we did not witness a significant rally, neither did we observe a significant sell-off. The German 10-year Bund ended the week relatively unchanged at 1.93 percent; the French 10-year Oat was off about 9bps to close at 3.01 percent; the Spanish 10-year note was down about 5bps to settle at 5.25 percent; and the Italian 10-year note improved by 3bps to finish at 5.58 percent.

The market is still very focused on two of the weakest credits in Europe, Portugal and Greece. In Portugal, the 10-year note rallied by 21bps from last Friday's close of 12.48 percent to end the week at 12.27 percent. Unfortunately, Greece took a bit of a turn for the worse, as their 10-year note traded-off by 147bps to finish the week at 34.38 percent, after reaching a new all-time high yield of 36.49 percent; their 2-year note closed the week at 204.82 percent, after touching a new all-time high of 214.63 percent; and their 1-year note was off 120bps to end the week at 629.40 percent, after it touched its new all-time high yield of 639.01 percent.

While corporate debt issuance experienced its slowest week of the year, there were still a number of marquee transactions that were brought to market. Total SA executed a two-part \$2 billion package comprised of \$1 billion each of a five and ten-year note. Toyota Motor Credit issued its own two-tranche \$2 billion transaction made up of \$1.25 billion of a three-year note and \$750 million of a five-year note. Corning was also in the market with their own two-part deal that included \$250 million of a 25-year bond and \$500 million of a 30-year bond.



Are you confident in your abilities to...

- Mitigate counterparty credit risks
- Measure FX risk and evaluate hedging options
- Detect and combat fraud risk
- Identify and control liquidity risks

You can be. **Become a CTP.**
www.CTPcert.org

CTP, Certified Treasury Professionals and the CTP logo are registered trademarks of the Association for Financial Professionals. © 1/12

What to watch over the next week:

Monday, February 20, 2011

- *No major releases*

Tuesday February 21, 2011

- [Chicago Fed National Activity Index](#) (January 2012)

Wednesday, February 22, 2011

- [Existing Home Sales](#) (January 2012)
- [Mortgage Applications](#) (Week ending February 17, 2012)
- [Oil & Gas Inventories](#) (Week ending February 17, 2012)

Thursday, February 23, 2011

- [FHFA Purchase –Only House Price Index](#) (December 2011)
- [Mass Layoffs](#) (January 2012)

Friday, February 24, 2011

- [New Home Sales](#) (January 2012)
- [University of Michigan Consumer Confidence](#) (February 2012)

We're talking about INNOVATION in Treasury.

LEARN FROM THE BEST. Connect with treasurers from leading companies to see what they are doing in: hedging FX volatility; investments; global treasury structures and cash management.

Be part of the conversation. www.AFPonline.org/Innovation

CORPORATE
TREASURERS
Council

CTC® Global Corporate Treasurers Forum
May 16-18, 2012 | Phoenix

Exclusive Sponsor: **Bank of America**
Merrill Lynch

CTC and Corporate Treasurers Council are registered trademarks of the Association for Financial Professionals. ©2012.



AFP EconWatch—Weekly Economic Newsletter by:

Brian T. Kalish, Director, Finance Practice
Karen L. Melia, Survey Research Specialist
Kevin A. Roth, Ph.D., Managing Director, Research & Strategic Analysis

Update your profile (<http://www.afponline.org/newsletters>) to receive AFP EconWatch every Monday via e-mail.

We welcome your comments. Please send them to Research@AFPonline.org

NOTE: This information is from sources believed to be reliable but accuracy cannot be guaranteed. AFP is not a registered investment advisor and under no circumstances shall this information be construed as investment advice of any kind.