Nomura Securities International, Inc.
Economics Research

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Daily Commentary

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Review

There were no macroeconomic data reported Monday but the rather stunning developments surrounding "Fannie Mae" (FNMA) and "Freddie Mac" (FHLMC) gave the markets plenty to think about. The Treasury and Federal Reserve announced measures that they would take to head off a calamitous loss of public confidence in these two mega-mortgage lenders. For its part, the Treasury has asked Congress to authorize three key steps aimed at strengthening the lenders: i) increasing the lines of credit (currently $2.5 billion) available from the Treasury to FNMA and FHLMC; ii) authorizing the Treasury to take an equity stake (if necessary) in either of the GSEs; iii) giving the Federal Reserve a "consultative role" for setting capital adequacy standard for the GSEs. In a separate action, the Fed announced that the Board of Governors had granted the New York Fed the authority to lend to Fannie Mae or Freddie Mac "should such lending prove necessary." These actions now make explicit the nature and extent of the support for the GSE's that the markets had long assumed was implicit. However, none of these actions seemed to provide much solace for existing shareholders, whom Mr. Paulson had earlier insisted NOT be insulated from the risks associated with investment in these GSEs.

Preview:

In the wake of these developments, Fed Chairman ***Ben Bernanke's testimony*** in conjunction with the Fed's semi-annual Monetary Policy Report to Congress promises to rivet the attention of the markets Tuesday. Members of the Senate Banking Committee are sure to question Mr. Bernanke aggressively on the GSE issues. They are also likely to be bolder than usual at these affairs in seeking some greater clarification of the Fed's policy intentions in the months ahead.

Weekly Retail Store Surveys; week ending July 12.
Retail activity in June remained "below target" for the fifth time in the last six months. Persistent high gasoline prices and worries about the economy are likely to discourage discretionary spending.

Retail Sales: Total. June. NSI: +0.3%. *Consensus: +0.3%, range: -0.4% to +1.0%.*
Sales ex-Automotive Dealers: June. NSI: +0.7%.*Consensus: +0.8%, range: +0.2% to +1.5%.*
Price-driven increases in revenues at gasoline retailers are expected to counteract lower vehicle sales and negligible growth in sales at other retailers.

Producer Price Index: June. NSI: 0.8%. *Consensus: +1.4%, range: +0.5% to +1.8%*
Core PPI: June. NSI: 0.1%. *Consensus: +0.3%, range: +0.1% to +0.4%*
Energy costs continue to propel headline inflation measures. Core inflation is expected to remain subdued but an upside surprise would magnify concerns about energy-price pass-through effects that could lead to an unwelcome rise in inflation expectations.

Empire State Index: July. NSI: -5.0, Last: -8.7. *Consensus: -7.0; range:-9.2 to -0.1.*
Conditions facing manufacturers in the Second Federal Reserve District now more closely resemble the weaker conditions in other regions.

Business Inventories: May. NSI: NF. *Consensus: +0.5%, range: +0.3% to +0.6%*
A larger than expected increase in overall business inventories could lead to further cuts in orders for and production of manufactured goods.

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Equites Market		
	Close	**Change**
DJIA	**11055.2**	**-45.35**
%Change		**-0.41%**
YTD %		**-16.70%**
Nasdaq	**2212.9**	**-26.21**
%Change		**-1.17%**
YTD %		**-16.48%**

Treasury Market		
Current Issues	**YTM**	**Prev. Close**
2-Yr	**2.46**	**2.60**
Change	**-0.14**	
5-Yr	**3.17**	**3.28**
Change	**-0.11**	
10-Yr	**3.86**	**3.96**
Change	**-0.10**	
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