

Market Update

SOUTHEAST CORPORATE

Insightful Thinking.
Responsive Actions

Economic Commentary

There is an intellectual debate going on at the Federal Reserve and the outcome could determine whether the central bank's short-term target rate will stay low for an "extended period of time." One side of the debate is led by Chairman Ben Bernanke who believes that the extraordinary events of the past several years warrant a continuation of the easy monetary policy represented by a target rate for Fed funds in a range of zero to 25 basis points. The other side is represented by Philadelphia Fed President Charles Plosser, who argues that current inflation measures are distorted by an epic decline in housing costs and could mask a buildup of inflationary pressures.

The growing internal debate over the behavior of inflation comes as the central bank plots an exit from an unprecedented experiment in easy money. Its decisions on inflation will influence how quickly it moves to increase short-term interest rates and drain the huge sums it pumped into the financial system during the recession.

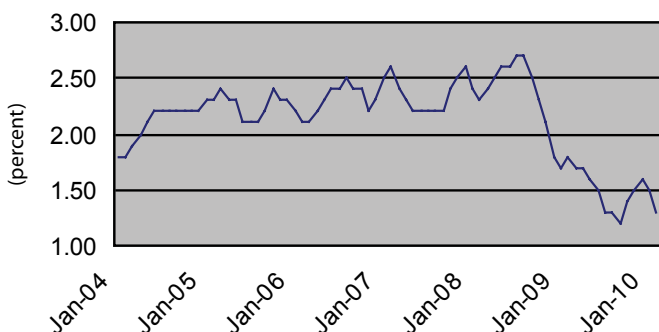
The Presidents of the New York and San Francisco Banks side with the Chairman. In this camp, one worry is that inflation-adjusted interest rates – also known as real interest rates – could rise if the Fed does nothing because inflation is declining. Such a rise would be a disincentive for businesses to invest in new projects and for consumers to spend. This unintended increase in rates could put a brake on the economic recovery.

The opposing side, along with voting member Thomas Hoenig, President of the Kansas City Fed, worries that the combination of low rates and more than \$1 trillion the Fed has pumped into the financial system is a formula for inflation down the road. The focus is less on the amount of slack in the system and more on the risk that consumers and businesses will anticipate inflation and act accordingly. Hoenig recently rotated onto the Federal Open Market Committee and has voted twice against the majority, arguing against the continued use of the term "extended period" to describe how long rates would remain low.

In situations like this, it is not unusual for the Chairman's view to prevail. Janet Yellen, President of the San Francisco Fed, agrees with him, and is expected to be nominated to become the Fed's vice chairman, which would add weight to his opinion.

Chart of the Day

Personal Consumption Expenditures
Core Index YoY



Recent Economic Releases

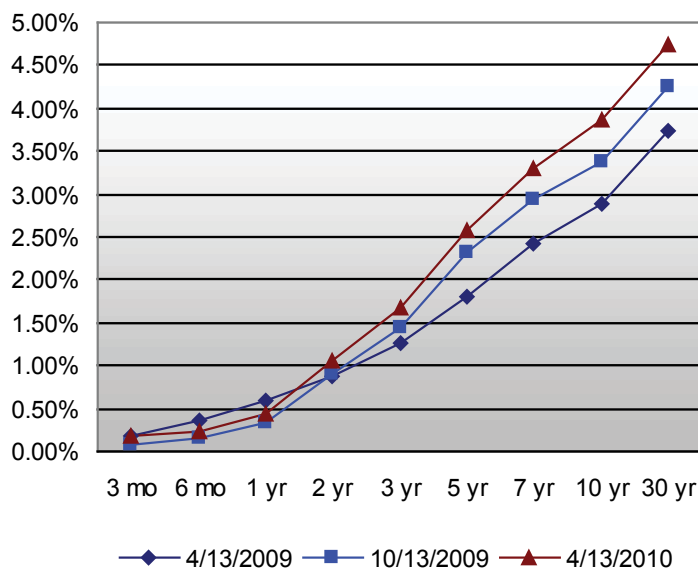
Date	Release	Expected	Actual	Impact
04/05/10	ISM Non-Mfg Composite	54.0	55.4	↑
04/09/10	Wholesale Inventories	0.4%	0.6%	↑
04/14/10	Consumer Price Index	0.1%	0.1%	↔
04/14/10	CPI Ex Food & Energy	0.1%	0.0%	↔
04/14/10	Retail Sales	1.2%	1.6%	↑
04/14/10	Retail Sales Less Autos	0.5%	0.6%	↑
04/14/10	Business Inventories	0.4%	0.5%	↑

↑ = positive for economy ↓ = negative for economy ↔ = neutral

Interest Rates as of: April 13, 2010

	Treasury	Agency	Euros/Swaps
1 Month	0.14%	0.15%	0.26%
3 Month	0.17%	0.20%	0.30%
6 Month	0.24%	0.31%	0.46%
1 Year	0.44%	0.52%	0.94%
2 Year	1.06%	1.15%	1.19%
3 Year	1.67%	1.82%	1.80%
5 Year	2.59%	2.73%	2.73%
10 Year	3.86%	4.05%	3.82%
30 Year	4.74%	5.29%	4.51%
Fed Funds Target		0.00% - 0.25%	
Prime Rate		3.25%	
Discount Rate		0.75%	

US Treasury Yield Curve



The information provided herein was obtained from sources believed to be reliable. Southeast Corporate makes no guarantee as to the accuracy of the market data and assumes no liability for any error in the preparation of this document.