

Market Update

SOUTHEAST CORPORATE

Insightful Thinking.
Responsive Actions

Economic Commentary

All three major inflation measures remained quite muted during the month of April, lending support to the Federal Reserve's pledge to keep interest rates low for an "extended period." Federal Reserve Bank of New York President, William Dudley, recently said that economic growth is likely to be "more sluggish" than desired, and with continued high unemployment, the need to fight inflation is minimized. In addition, the austerity moves contemplated in the European nations to fight their fiscal crisis threatens to slow economic growth in the region and could spread across the ocean.

The first report on inflation was the Labor Department's report on prices of imported goods. The 0.9 percent increase in the import price index followed a 0.5 percent rise in March. Compared with a year earlier, import prices rose 11.1 percent. While these increases seem high, they are being impacted by a jump in petroleum costs. Prices excluding petroleum rose 0.3 percent last month, and 3.3 percent from April 2009.

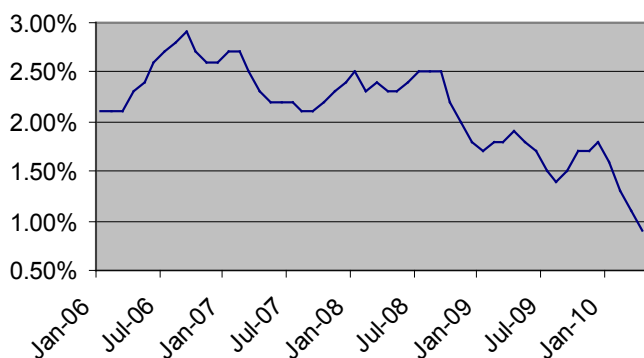
The Labor Department's report on producer prices was the second picture of inflation. Prices paid to factories, farms and other producers fell 0.1 percent in April, and excluding food and fuel, core costs climbed 0.2%. Cost pressures are diminishing as goods make their way up production lines to consumers, showing companies have enough idle capacity to prevent bottlenecks even as sales rebound.

The final report on inflation was the government's data on consumer prices. The 0.1 percent fall in the consumer price index was the first decrease since March 2009. The core rate, again excluding food and energy, was unchanged. The core rate rose 0.9 percent from April 2009, capping the smallest year-over-year change since January 1966.

The Fed's long-term forecast for its preferred measure of inflation, the Commerce Department's index tied to consumer spending and excluding food and fuel, calls for gains in a range of 1.7 percent to 2.0 percent. That gauge, typically lower than the CPI, was up 1.3 percent in the 12 months through March.

Based on the price of Fed funds futures, there is a 64 percent probability of no change in short-term interest rates at the last Fed meeting of the year in mid-December, up from 25 percent a month ago. It appears traders are starting to agree that rates will indeed stay low for an extended period.

Chart of the Day
Core CPI (Year-over-Year)



Recent Economic Releases

Date	Release	Expected	Actual	Impact
05/17/10	Empire Manufacturing	30.00	19.11	↑
05/18/10	Producer Price Index	0.1%	-0.1%	↑
05/18/10	Housing Starts	650K	672K	↑
05/18/10	Building Permits	680K	606K	↑
05/19/10	Consumer Price Index	0.1%	-0.1%	↑
05/20/10	Leading Indicators	0.2%	-0.1%	↔
05/24/10	Existing Home Sales	5.62M	5.77M	↑
05/25/10	Consumer Confidence	58.5	63.3	↑

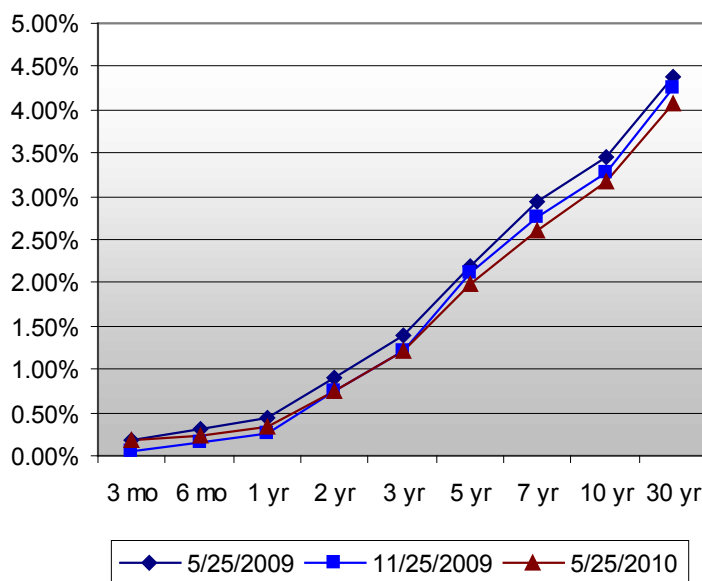
↑ = positive for economy ↓ = negative for economy ↔ = neutral

Interest Rates as of: May 25, 2010

	Treasury	Agency	Euros/Swaps
1 Month	0.15%	0.16%	0.35%
3 Month	0.17%	0.22%	0.54%
6 Month	0.23%	0.30%	0.76%
1 Year	0.33%	0.43%	1.22%
2 Year	0.76%	1.05%	1.28%
3 Year	1.20%	1.51%	1.67%
5 Year	1.98%	2.22%	2.36%
10 Year	3.16%	3.45%	3.27%
30 Year	4.06%	4.74%	3.89%

Fed Funds Target	0.00% - 0.25%
Prime Rate	3.25%
Discount Rate	0.75%

US Treasury Yield Curve



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