The Week Ahead: Housing Data to Drive the Market

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The US dollar is weaker, equities are higher, and gold is soaring. That's how the Thanksgiving-shortened week is beginning after markets slid back late last week.

Led by global markets, US equities are looking to open 1% higher on Monday. Conversely, Treasuries are weaker with the benchmark 10-year yield up 2 basis points at 3.38%.

Analysts from BMO note the Treasury is issuing $61 billion in short-term bills and $118 billion in 2-, 5-, and 7-year notes this week. "Given the recent hearty appetite (amid concerns about a flagging recovery), [the market] should have little difficulty swallowing the lot," they said.

Meanwhile, gold prices are flying $19 higher at $1,166 per ounce as the dollar continues to weaken.

Key Events This Week:

Monday:

10:00 — **Existing Home Sales** are expected to see a modest gain in October following the 9.4% jump in sales during September — attributed largely to the home-buyer tax credit that was set to expire in November but which got extended. Economists expects to see the annual pace of sales rise from 5.57 million to 5.70 million in October, which would be the sixth gain in seven months.

Analysts from IHS Global Insight are more optimistic than the consensus with a forecast of 5.85 million sales. "The Pending Home Sales Index increased 6.1% in September, rising for the eighth straight month and reaching its highest level since December 2006," analysts said. "The increase points to an October-November surge in existing home sales."

- Treasury Auctions:
- 11:30 — 3-Month Bills
- 11:30 — 6-Month Bills
- 1:00 — 2-Year Notes

Tuesday:

8:30 — Even with the jobless pool expanding, **Gross Domestic Product** rebounded strongly in the third quarter. Unfortunately, the first set of revisions are expected to trim the reported 3.5% pace down to just 2.8% on account of trade figures and weak retail inventories.

Analysts from Nomura Global Economics believe a full percentage point will be cut from the advance estimate of GDP, based on downward revisions to personal consumption, non-residential fixed investment, and net exports. "Note, however, that weaker inventory growth in Q3 implies strong growth in Q4, and we have revised up our Q4 forecasts accordingly."

Revisions are not expected to impact the price index, which advanced a subdued annualized rate of 0.8% in the quarter.

9:00 — The **S&P Case-Schiller Home Price Index** has risen in each of the past four months, including a 1.2% gain in August and a 1.6% gain in July. The current trend suggests "considerable upward momentum in home prices," according to analysts from TD Securities, and the trend should continue in September.

"Prices are now both low and stable, amounting to an attractive environment for potential home buyers," note economists from BBVA. "Favorable prices, along with the added incentive from the extension of the tax credit for home buyers, will stimulate more demand for homes. As a result, we expect to see further improvement in the housing market in 4Q09."

10:00 — Weak perceptions of the job market drove the Conference Board measure of **Consumer Confidence** down 5.7 points in October, and with the unemployment rate now in double digits the Street isn't expecting any rebound in November. The index is expected to fall from 47.7 to 47.0, which some of the economists polled by Bloomberg looking for a 44.0 score. Many eyes will be on the present conditions component, which dipped to a cyclical low of 20.7 last month.

“The October confidence report revealed a large decline in households’ assessment of the economy, likely due to the prolonged labor market downturn and recent rise in oil prices,” wrote analysts from Nomura. “The index representing current economic conditions reached a new record low. A lack of job growth may weigh on confidence for some time.”

With expectations this low, retailers have little reason to be optimistic for the holiday shopping season.

10:00 — The **FHFA House Price Index** is less closely watched than the S&P Case-Shiller index, largely for sampling reasons. The FHFA index only looks at the prices of homes that were backed by Fannie Mae and Freddie Mac; by doing so, the index excludes the subprime mortgages that were so instrumental in the crisis.

2:00 — There was little of interest in the last communiqué from the Federal Reserve to it seems unlikely that the expanded version — the **FOMC Minutes** — will be much different. The dovish statement reiterated the policy will remain accommodative and that inflation expectations are low, and the statement had no dissenting voices from the 10 voters.

“We expect the minutes to reflect broad expectations of a muted economic recovery as policymakers remain wary of potential downside risks,” said Joseph LaVorgna from Deutsche Bank.

- Treasury Auctions:
- 11:30 — 4-Week Bills
- 1:00 — 5-Year Notes

Wednesday:

8:30 — **Durable Goods Orders** are set to improve by 0.5% in October, following the 1.0% gain in September. The spectrum of forecasts is wide but all are positive, ranging from +0.1% to +1.8%.

Analysts from IHS Global Insight are on the top end of that spectrum, but their forecast is based on temporary boosts rather than sustainable trends.

“Durable goods should get some positive help from volatile sectors in October, with aircraft orders rising and more than offsetting an expected pull back in defense orders,” analysts wrote in a weekly note. “A recovery in reported motor vehicle orders is long overdue given the rise in production since June, and core capital goods orders should improve again.”

8:30 — October’s **Personal Income & Outlays** report is expected to show spending and income both rising, but at different paces. Spending is set to advance 0.5%, erasing the prior month’s 0.5% fall and building on the 1.4% jump in August. Income is less impressive: after a flat reading in September incomes should rise 0.2%.

“After adjusting down in September due to the end of the Cash for Clunkers program, personal consumption expenditures (PCE) are expected to rebound in October due to higher than expected auto sales,” said forecasters from BBVA. “Furthermore, strength in retail sales excluding autos indicates that demand is picking-up modestly outside of that sector as well. If auto sales remain fairly stable in the fourth quarter, consumption could increase at a small rate.”

8:30 — The **Initial Jobless Claims** report has seen 505k claims in each of the past two weeks. For the week ending Nov. 21, analysts are expecting new claims to fall below 500k for the first time in more than a year. That’s still far from indicating growth, but the event could be significant as investors worry that about the jobless recovery.

10:00 — Current conditions and the six-month outlook each drove the preliminary **Consumer Sentiment** index lower in early November. Two weeks later, it’s unlikely much has changed for the better. The 66.0 score is expected to be revised to 67.0, with forecasts ranging from 66.0 to 69.0.

“The tug-of-war over consumer psyches between climbing joblessness and rising equities should keep the [index] fairly steady at low levels in November,” said analysts from BMO Capital Markets. “But consumer spirits have at least picked up enough in recent months to spur some shopping.”

10:00 — **New Home Sales** fell a considerable 3.6% in September, ending five months of gains. Moreover, revisions to the prior three months trimmed earlier advances. For October, the annual pace of 402k sales is set to rise to 410k, while supply on the market — currently at a 27-year low — should shrink slightly from the current overhang of 7.5 months.

“Sales remain extraordinarily low relative to trend levels and, we believe, have further to climb,” said analysts from Nomura, who look for a 2.5% advance to 412k. “Although we expect sales to increase, we see downside risks to this forecast due to the originally-scheduled expiration of the first-time homebuyer tax credit (the credit has since been extended through April 2010). If in fact the program boosted demand over the summer, sales could sag in these autumn months.”

- Treasury Auctions:
- 1:00 — 7-Year Bills ($32 billion)

Thursday:

Markets closed for Thanksgiving.

Friday:

Markets close early at 1:oo pm. No economic data scheduled for release during market hours.

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