The Week Ahead: FOMC Meeting, Housing Prices & Sales, Q4 GDP, $118bn in Treasury Supply

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Equity markets are looking to open about 1% higher following the substantial losses from last week.

90 minutes before the opening bell, Dow futures are up 55 points to 10,206 and S&P 500 Futures are trading 6.90 points higher at 1,097.90.

“A gain in stocks today would follow the worst three-day decline since the dark days of last March,” point out economists from BMO this morning.

Commodities are also higher with WTI Crude oil up 25 cents to $74.79 per barrel, and Spot Gold up $7.07 to $1,100.27.

Recapping last week, the Dow shed 4.19%, more than erasing all of the gains in 2010.

“Earning reports failed to provide much lift, the Chinese are threatening to tighten lending policies, jobless and housing figures disappointed, and the banking sector is worried about President Obama's financial reforms,” noted analysts from Schaeffer’s Investment Research.

The Week Ahead:

Monday:

10:00 — **Existing Home Sales** are set to slide rapidly in December following two months of brisk gains. Pending home sales, which track signed contracts that haven’t been finalized, dropped 16% in November and thus point to a major drop in existing sales following gains of 7.4% and 9.9%, respectively, in November and October. November’s annual pace of sales was 6.54 million, which sent the inventory rate to a 3.5-year low of 6.5 months, but in December the consensus figure is 5.90 million. Not even the most optimistic estimates aim for stabilization.

“The astonishing surge in home sales came to an abrupt end in December, if the pending sales index in November is any guide,” said Ian Shepherdson from High Frequency Economics. “It suggests sales dropped by about 16% to 5.5m . . . so there is scope for disappointment when the numbers are released.”

Looking farther ahead, Ellen Zentner from BTMU said the housing market should be healthy in 2010.

“Home affordability remains very high with 30-year mortgage rates hovering around 5.1 percent, existing home prices at their cyclical lows, and personal income showing signs of life,” she said. “Furthermore, the labor market is poised to begin consistently creating jobs early in 2010, which should prove to be a strong fundamental support of the housing market.”

Tuesday:

9:00 — The **S&P Case-Shiller Home Price Index,** which has shown five consecutive monthly price gains, may be one of the week’s biggest economic releases. As of October, national home prices were 9.4% below year-ago levels, versus -11.3% in August and -19.0% in January. Compared to their July 2006 peak prices remain down 26%.

“A drop this month would mark the first decline in house prices since April 2009,” noted analysts from Nomura Global Economics. “Most of this deceleration likely reflects a normal seasonal downswing. However, we also believe the first-time homebuyer tax credit may have supported prices in 2009, and that prices may lose some momentum this year.”

10:00 — Analysts are expecting a slight rise in **Consumer Confidence** this month. With unemployment in double-digits and the stock market shedding more than 4% last week, it’s a bit of a mystery why the index would rise. Most economic notes available point to out that confidence is historically low and assume consumers are becoming more confident as GDP increases. In December the index was 52.9; in January the expectation is for 53.5.

“With the start of a new year, confidence typically improves,” said analysts from IHS Global Insight. “Strong growth in real GDP in the fourth quarter suggests that an upturn in employment is coming soon. Increased optimism about employment and income growth in the year ahead should give confidence a lift."

Treasury Auctions:

- 1:00 — 2-Year Notes

Wednesday:

10:00 — Unlike existing home sales, **New Home Sales** are expected to rise in December, in some respect because they already nosedived 11% the month before. The current pace of sales is 355k; in December economists believe the figure will jump to 370k. The slump in November can largely be attributed to the government incentive for first-time homebuyers, which was initially set to expire in November — its extension may also explain why sales are anticipated to resume in December.

"New home sales took their lumps during November, the payback for the previous boost from the tax credit for new homeowners—and possibly also because of measurement error," said analysts at IHS Global Insight. "For December, we are expecting a solid rebound based on the 8.3% increase in single-family housing permits, which are a good predictor of new home sales."

2:15 — The first **FOMC Meeting** of the new decade shouldn't carry any surprises in terms of the Fed Funds rate, which has been in the zero to 0.25% rate for 13 months now. But the meeting will draw other speculation related to whether the Senate will give Bernanke another term as chairman.

"While some Senators have announced their opposition, or at least withheld their endorsement, on Friday the White House reaffirmed its support of the Fed Chairman (as did the Chairman of the Senate Banking Committee)," noted Joseph LaVorgna from Deutsche Bank. "While the probability has diminished somewhat as of late, we expect the necessary votes will ultimately turn up. In the event the vote is forestalled, Mr. Bernanke's term as Fed Chairman concludes at the end of the month."

The statement accompanying the decision should note recent economic improvement and reiterate that underlying inflation pressures are benign.

Treasury Auctions:

- 1:00 — 5-Year Notes

Thursday:

8:30 — **Durable Goods Orders** are anticipated to leap 1.6% in December, with estimates ranging from a decent +0.5% to a massive 5.5%. The anticipated jump follows a revised 0.7% improvement in November (originally reported at +0.2%, before the Census Bureau released corrections.)

"Durable goods are still in solid recovery mode, but December's surge will reflect volatile aircraft orders more than anything else," said economists from IHS Global Insight.

"Boeing recorded 59 new orders during the month, up from just 9 in November," explained analysts from Nomura. "Excluding transportation though, we see more moderate growth of 0.2% month-over-month. Capital goods demand is picking up, which suggests firms are becoming more confident in the sustainability of the recovery."

8:30 — **Initial Jobless Claims** had been moving steadily downwards for several weeks but then jumped 36k last Thursday to 482k. In large respect the surprising figure was related to holiday issues, which may have driven the number lower during the holidays than the actual trend. The Labor Dept. also pointed out that staff was low during the previous weeks and that last week may have included claims filed but not registered previously.

The consensus is to see 430k claims, which would be a return to normalcy if the holiday numbers were broadly correct. Economists' estimates range between 430k and 460k.

Treasury Auctions:

- 1:00 — 7-Year Notes

Friday:

8:30 — **Gross Domestic Product** should reflect strong growth in the final quarter of 2009. The consensus prediction is to see 4.5% growth, more than the double the pace of Q3's +2.2%.

Analysts at Nomura said the numbers are driven by inventory rates. "The acceleration in growth from Q2 owes entirely to a slowdown in inventory destocking. We expect that real private inventories declined by just $25bn during the quarter, an improvement from a decline of about $140bn previously. This $115bn swing should add 3.6 percentage points to the annualized quarterly growth rate."

Ian Shepherdson from HFE added: "We look for a 5.5% leap in GDP, with inventories contributing about 4.0 percentage points. Consumption should be up 1.9%, with fixed investment down 1.2%. Both exports and imports should rise about 23%. The GDP deflator should rise 2.0%."

9:45 — The **Chicago Business Barometer** is generally considered the best tool to predict the nationwide ISM survey of manufacturing conditions, which comes out next week. Estimates are for the index to lose 3 points in January to 57.0, which despite the poor month-to-month comparison still represents clear growth for the fourth straight month (anything above 50.0 suggests economic expansion.)

"Several manufacturing surveys have shown some cooling after a period of strong gains," said analysts at Nomura. "This is a regular cyclical pattern and does not suggest the sector is likely to slip back into recession."

10:00 — Revisions to **Consumer Sentiment** should be marginally positive, economists believe. The Reuter's/U of Michigan report inched up three-tenths to 72.8 in the preliminary reading this month and final revisions are expected to produce a 73.0 level, despite rising jobless claims, a high unemployment rate, and recent volatility in the stock market.

"Improving assessments of current conditions are driving the index higher," said analysts from IHS Global Insight, who look for a 73.3 score. "With labor market conditions improving, households are more confident about employment and income prospects. Upper income households, benefiting from the recovery in stock prices, are expected to rate buying conditions more favorably."

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