

The Week Ahead: Treasury Auctions Highlight Slow Econ Calendar Until Friday

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Equity futures are moderately higher ahead of a fairly light week of economic data.

Dow futures are trading 18 points higher at 10,563 and S&P 500 futures are up a 2 points to 1,138.

Commodities are also edging slightly higher with WTI crude oil up 33 cents to \$81.83 per barrel and Spot Gold up 54 cents to \$1,135.19.

Meantime, the US dollar is a bit lower against the euro since France's Nicolas Sarkozy said the continent would help Greece: "if it were necessary, the states of the euro zone would fulfill their commitments."

In terms of data the week ahead doesn't quite begin until Wednesday afternoon when the Treasury releases its budget statement. On Thursday, weekly jobless claims will be accompanied by the monthly trade balance. Friday's retail sales index is the highlight this week.

Key Events This Week:

Monday:

8:35 — **Kevin Warsh**, governor of the Federal Reserve, speaks to the Hedge Fund Institutional Forum in New York.

- Treasury Auctions:
- 11:30 — 3-Month Bills
- 11:30 — 6-Month Bills

Tuesday:

Notification Day: March Fannie Mae and Freddie Mac 30 year agency MBS coupons begin the settlement process.

9:30 — **Charles Evans**, president of the Chicago Fed, speaks to the NABE annual policy conference in Arlington, Va.

Treasury Auctions:

- 11:30 — 4-Week Bills
- 11:30 — 52-Week Bills
- 1:00 — **3-Year Notes (\$40 billion)**

Wednesday:

10:00 — **Wholesale Trade Inventories** are expected to increase by 0.2% in January, a fraction of the 0.8% decline seen in December. Compared to 12 months prior, inventories were down 10.2% in the last report.

Economists from Nomura said demand from retailers continues to grow but they suspect that wholesalers "will remain cautious about accumulating stocks given ongoing uncertainties about the outlook."

Going against the consensus call, Ian Shepherdson from HFE said to expect another drop of around 0.5%. "But sales are still rising strongly, and we expect a 1% gain, driven by the durable goods sector," he added.

2:00 — The Treasury **Budget Statement** is expected to show a massive deficit in February. The consensus call is to see a gap of \$223 billion in the month, compared with \$193 billion in the previous February and \$43 million in January.

"February is typically a month of large deficits due to income tax refund payments," economists at Nomura point out. "Given tax law changes

in last year's stimulus bill — including the Making Work Pay tax credit and the first time homeowners tax credit—refunds could be substantial this year.”

Bloomberg News calculates that the February deficit has averaged \$144.3 billion over the past 5 years, much higher than the 10-year average of \$108.0 million.

Treasury Auctions:

- 1:00 — **10-Year Notes (\$21 billion)**

Thursday:

8:30 — Economists expect the **Trade Balance** to widen modestly in January. The consensus call is for a \$41 billion deficit, compared with \$40.2 billion a month before but well up from the \$36.4 billion gap in November.

Economists from IHS Global Insight said higher oil prices have pushed up the bill for imports recently.

“Export and import volumes both surged in December and we may see a pause in trade growth in January,” they added. “In particular, exports and imports of aircraft will probably fall after sharp increases last month. But the underlying recovery in global trade will continue.”

Analysts from Nomura note that foreign demand for US products, especially from China, remains strong.

“However, stronger domestic growth is likely to lead to a pickup in imports as well,” they said. “We expect import volumes to increase by a greater amount than export volumes. The major ports have recorded increases in both inbound and outbound container traffic during the month.”

8:30 — In the final months of 2009 **Initial Jobless Claims** were falling on a monthly basis but for the past two months the trend has reversed. Claims averaged 471k in February compared to 462k claims in January and 460k in December. For the first week of March economists expect to see claims fall 15k to 454k. But even if accurate it's nothing to cheer about — to indicate growth the weekly trend has to be around 400k or lower on a sustained basis.

“This indicator has been exhibiting an upward trend since mid January, illustrative of the ongoing weakness in the labor market,” said economists from BBVA “Nevertheless, initial claims have come down significantly from their peak of 658K in March 2009. They are expected to drop further, but at a pace consistent with the slow recovery of the labor market.”

Treasury Auctions:

- 1:00 — **30-Year Bonds (\$13 billion)**

Friday:

8:30 — **Retail Sales** is easily the most important figure to be released this week. And that's unfortunate, because sales are expected to fall 0.2% in February after 0.5% gain to start the year. Part the negativity is due to autos as new vehicle sales slid 4.2% in the month, but even with them excluded the index is expected to be flat following a 0.6% gain.

Ellen Zentner from BTMJ said the results will be dim for two reasons.

“Blame Toyota, but mostly blame the weather because we expect a -3.3% decline in motor vehicle sales in February and that's going to be the biggest drag on overall retail sales,” she said. “But weather also depressed other areas of spending as snowstorms and all-around nasty weather hit the country over and over again throughout the month. Already we saw a weather-impact on February payrolls in which retail jobs were flat following a big +42K gain in the prior month.”

Analysts at IHS Global Insight point out that not all news has been negative lately.

“The ICSC index of comparable chain-store sales increased a surprisingly strong 1.0% in February, suggesting some upside risk to our projection,” they wrote. “The rebound in the stock market appears to be boosting sales of apparel and luxury goods, but it will take an upturn in employment to generate robust growth across sales channels.”

10:00 — It looks as though **Consumer Sentiment** will be of no real importance this month. The consensus call is for the score to edge up from 73.6 to 74.0, not quite a breathtakingly steep climb.

Economists from Nomura said the Reuter's/University of Michigan report should inch up due to "improving financial conditions." Analysts from IHS Global Insight note that "encouraging signs" of imminent job growth could help too. And the forecasting team at BBVA looks for upward trend, albeit a slow one because of general economic uncertainty.

10:00 — **Business Inventories** are set to increase by 0.2% in January, effectively filling in for the 0.2% drawback in December.

"The inventory adjustment has been playing an important role in stimulating industrial production and driving GDP growth over the past two quarters," wrote economists at BBVA. "Businesses allowed stock levels to get so low that they now need to rebuild inventories in order to meet sales demand. As a result, inventories are expected to rise in January, indicating that the change in inventories could also have a positive impact on 1Q10 GDP."

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