U.S. Daily Directions: March 26, 2008, NY Edition

Day ahead: **Durable goods orders, new home sales, 2-yr note auction, FedSpeak.** Durable goods for Feb are expected to have rebounded modestly, 0.7%m/m, but fallen ex-trans by 0.3%. New home sales for Feb are expected to have fallen 1.7%m/m to an annualized rate of 578K, a new low since 1995. The Treasury will auction a huge amount ($28bn) of 2yr notes that will raise $7.7bn in new cash. FedSpeak includes Evans (non-voter, to business economists) and Fisher (dissenting voter, regarding Fed).

Overnight: **FHLB in "monoline" business?? FDIC hiring, confidence doldrums, mortgage apps spike.** The FHLB system is seeking to enter the "monoline" business, lending its credit rating to municipal projects. This move will require Congressional action, although bi-partisan support has been expressed. The move would help municipalities lower borrowing costs, which have risen sharply in recent months due to market dislocations. FDIC has announced its intention to hire up to 138 employees to help work on the potential rise in bank failures. While only three banks failed in 2007, 76 are currently classified as troubled. ABC consumer confidence slipped to -31, and it looks to be stabilizing just above the lows since 1993. Overall mortgage applications spiked 48.1%, driven by an 82.2% spike in refis and a 54.7% jump in fixed rate applications. The rate for 30yr fixed rate mortgages has fallen to 5.74% as of Mar 21 from 6.36% just two weeks prior.

Asset Commentary/Assessment:

Eurodollars: **Yesterday yields mixed.** Yields were mixed, falling as much as 6.5bp for the Dec'08 contract, but rising further out by as much as 4.0bp for the Dec'10 contract. The market prices the potential trough for the Fed Funds to between 1.75% and 2.00% by H2'08. This view is more hawkish than our base case of 1.50% by mid-year. As to the Apr meeting, futures price the odds of a 50bp cut (our base case) at 34%, with the odds of only a 25p cut at 66%.

Treasuries: **Yesterday, yields lower / curve flatter.** After falling in yesterday's Asia session, yields chopped as markets mulled poor economic data, estimates of investment bank and banking system losses, and recent Fed action. The 2yr yield is down 4bp to 1.76%, while the 10yr yield is down 5bp to 3.50%. The 2s30s flattened another 3bp to 253bp. The very short-end continues to loosen up, with the 3mo T-Bill rising 18bp to 1.29%, a high since Mar 13. The Fed sold $12bn of Bills with maturities as far as Jun 12.

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