

## Market Commentary

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March 17, 2010

*The Treasury market is trading lower this morning as investors were able to digest the FOMC meeting Rate Decision, then determined it meant there is hope after all. The Fed, as expected, made no changes in the policy rate, which remained at 0.00-0.25%. They kept the “extended period” language in the statement and pledged to complete its agency MBS and Federal agency buying program by the end of the month. One could speculate what might happen when the biggest buyer (the Fed) removes itself from the market, but this isn’t going to catch traders by surprise and you might just be amazed how efficient our markets have become in the last 12-18 months. There was one dissenter, Kansas City Fed President Thomas Hoenig, who continues to worry about inflation. “Worry on Tom!” Speaking of inflation, today we will get a look into the world of wholesale costs when the Producer Price Index is released. The expectation is for PPI to rise 0.1% as a headline number and be flat as a core number. Tomorrow we will see if those that make the goods and services are having any success at “passing on” their increased costs on to the consumer when the CPI is released. This, in my opinion (small brained thinking) is where inflation is going to be found. I have said this before, but my measure of inflation is when there is sufficient demand and consumers are WILLING to accept price increases. So far, that has not been the case. When that changes, the Fed will likely act. While forecasting is about as accurate as basketball pools, I do believe we are a long ways away from reducing the economic “slack” enough to trigger inflation. The Treasury announced the next sale. \$44.0 billion of 2-year notes, \$42.0 billion of 5-year notes and \$32.0 billion of 7-year notes. All of this is needed to support a \$1.5 to 1.8 TRILLION budget deficit. Ouch! Happy St. Paddy’s Day!*

**More information available upon request.**

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