

**Interest Rate Watch**

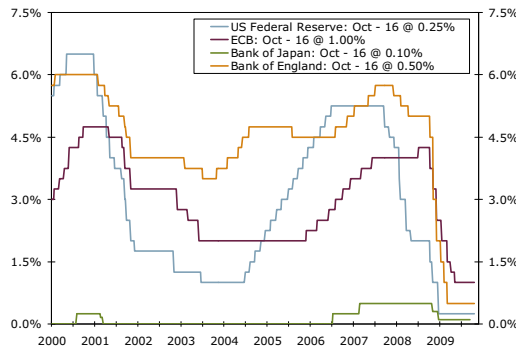
**Normal Interest Rate Cycle: Long Rates will Lead Short Rates**

Long term interest rates are expected to rise during the next six months as the Fed is expected to keep short-term interest rates anchored by the current low Federal funds rate. Investor expectations of growth, federal deficit supply/demand imbalances and the end to quantitative easing should work together to boost long-term rates. As emphasized in Fed Vice Chairman Kohn's speech this week, the outlook for the economy is one of slow, non-inflationary, growth and thereby, by inference, a long period for an unchanged fed funds rate.

Higher long-term rates will first reflect the diminished interest in the flight-to-safety trade that is typical of an economic recovery. Economic growth offers opportunity for investors who then shift portfolios away from Treasuries toward corporate bonds and equities. We have seen both of these movements in the last month. Second, Federal deficits continue and with those deficits arrive a steady supply of Treasury securities. Third, however, the Federal Reserve has indicated that it will discontinue its special program of quantitative easing of direct Treasury purchases at the end of this month. This will immediately push the market into a testing period to see what impact on long Treasury rates will appear with the end of the Fed special purchase program. The net of all this suggests that long-term rates will rise over the next six months, although the extent of the rise will be limited as inflation remains subdued.

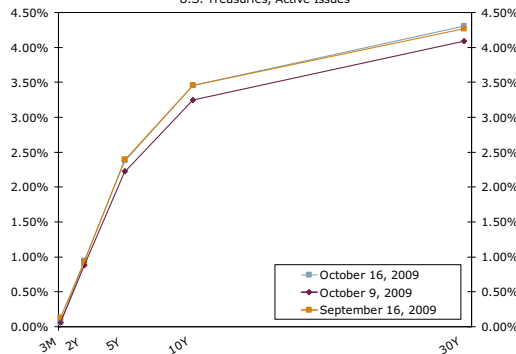
As for short rates, Kohn's presentation earlier this week suggests that the Federal Reserve sees no case for an increase in the funds rate anytime soon. Kohn emphasized that inflation is not a problem and that, in contrast, deflation remains a possibility given that the economy is expected to grow far-below potential for a while. Unemployment rates north of nine percent certainly remain far above anyone's estimate of full employment. Therefore, our expectations remain that the Federal funds rate will remain at the current target rate through mid-2010 while long rates drift up over the same period.

Central Bank Policy Rates



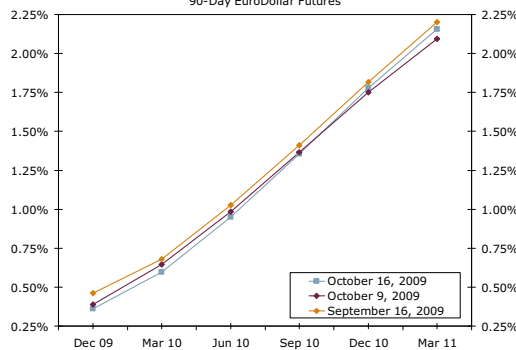
Yield Curve

U.S. Treasuries, Active Issues



Forward Rates

90-Day EuroDollar Futures



**Consumer Credit Insights**

**Credit Demand will Be Limited**

Three fundamentals will limit consumer credit demand for the next six months. Real disposable income gains are expected to average 1.5 percent over the next six months compared to a gain of 2.2 percent in 2007 before the credit crisis. In recent months there has been continued weakness in hours worked and average hourly earnings for workers. In addition, job losses are expected to continue for the next six months and this will weigh on consumer confidence and will limit consumer spending as well.

Household wealth rose \$2 trillion in the second quarter of after six consecutive quarters of declines. Over the last four quarters, household wealth is down over \$7 trillion and, that would suggest a roughly \$200 billion drop in consumer spending. The wealth gain in the second quarter was across the board in real estate, equities and pension fund/mutual fund assets. There is still a long way to go.

This week's retail sales data showed some improvement in spending yet continued weakness in sales of furniture, appliances and restaurants—areas frequently financed by installment credit or revolving credit. Retail sales ex-auto and gasoline were up 1.8 percent over the last three months, so there is progress.

There is a recovery going on in the economy, but consumer credit will lag along with income and job gains.

**Mortgage Data**

	Current	Week Ago	4 Weeks Ago	Year Ago
<b>Mortgage Rates</b>				
30-Yr Fixed	4.92%	4.87%	5.04%	6.46%
15-Yr Fixed	4.37%	4.33%	4.47%	6.14%
5/1 ARM	4.38%	4.35%	4.51%	6.14%
1-Yr ARM	4.60%	4.53%	4.58%	5.16%
<b>MBA Applications</b>				
Composite	742.9	756.3	592.8	489.3
Purchase	290.9	306.1	272.9	313.5
Refinance	3,374.6	3,377.1	2,454.5	1,514.2

Source: Freddie Mac, Mortgage Bankers Association and Wells Fargo Securities, LLC

## Market Data ♦ Mid-Day Friday

## U.S. Interest Rates

	Friday 10/16/2009	1 Week Ago	1 Year Ago
3-Month T-Bill	0.05	0.06	0.43
3-Month LIBOR	0.28	0.28	4.50
1-Year Treasury	0.45	0.38	1.23
2-Year Treasury	0.98	0.96	1.62
5-Year Treasury	2.39	2.35	2.84
10-Year Treasury	3.45	3.38	3.96
30-Year Treasury	4.28	4.22	4.26
Bond Buyer Index	4.32	4.06	6.01

## Foreign Exchange Rates

	Friday 10/16/2009	1 Week Ago	1 Year Ago
Euro (\$/€)	1.489	1.473	1.346
British Pound (\$/£)	1.635	1.584	1.730
British Pound (£/€)	0.910	0.930	0.778
Japanese Yen (¥/\$)	91.021	89.785	101.575
Canadian Dollar (C\$/\\$)	1.039	1.042	1.178
Swiss Franc (CHF/\\$)	1.019	1.031	1.138
Australian Dollar (US\\$/A\\$)	0.917	0.904	0.691
Mexican Peso (MXN/\\$)	13.115	13.307	12.834
Chinese Yuan (CNY/\\$)	6.827	6.826	6.830
Indian Rupee (INR/\\$)	46.308	46.417	48.845
Brazilian Real (BRL/\\$)	1.709	1.741	2.134
U.S. Dollar Index	75.757	75.966	82.455

## Foreign Interest Rates

	Friday 10/16/2009	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.69	0.70	5.08
3-Month Sterling LIBOR	0.57	0.56	6.18
3-Month Canadian LIBOR	0.50	0.50	3.81
3-Month Yen LIBOR	0.33	0.34	1.06
2-Year German	1.42	1.37	2.90
2-Year U.K.	0.88	0.81	3.77
2-Year Canadian	1.65	1.33	2.28
2-Year Japanese	0.25	0.25	0.80
10-Year German	3.29	3.20	4.07
10-Year U.K.	3.61	3.45	4.72
10-Year Canadian	3.53	3.36	3.75
10-Year Japanese	1.34	1.27	1.59

## Commodity Prices

	Friday 10/16/2009	1 Week Ago	1 Year Ago
WTI Crude (\\$/Barrel)	77.39	71.77	69.85
Gold (\\$/Ounce)	1048.08	1049.25	804.60
Hot-Rolled Steel (\\$/S.Ton)	555.00	555.00	915.00
Copper (\\$/Pound)	282.70	282.85	209.90
Soybeans (\\$/Bushel)	9.78	9.07	8.18
Natural Gas (\\$/MMBTU)	4.64	4.77	6.70
Nickel (\\$/Metric Ton)	18,735	19,423	11,675
CRB Spot Inds.	433.26	425.54	409.39

## Next Week's Economic Calendar

	Monday 19	Tuesday 20	Wednesday 21	Thursday 22	Friday 23
<b>U.S. Data</b>		<b>Housing Starts</b> August 598K September 620K (W) <b>PPI</b> August 1.7% September -0.8% (W) <b>Core PPI</b> August 0.2% September 0.0% (W)		<b>Leading Indicators</b> August 0.6% September 0.9% (W)	<b>Existing Home Sales</b> August 5.1M September 5.2M (W)
<b>Global Data</b>				<b>China</b> <b>Real GDP (YoY)</b> Previous (2Q) 7.9% <b>Canada</b> <b>Retail Sales (MoM)</b> Previous (Jul) -0.6%	<b>UK</b> <b>GDP (QoQ)</b> Previous (2Q) -0.6% <b>Germany</b> <b>IFO-Business Climate</b> Previous (Sep) 91.3

Note: (W) = Wells Fargo Estimate (c) = Consensus Estimate