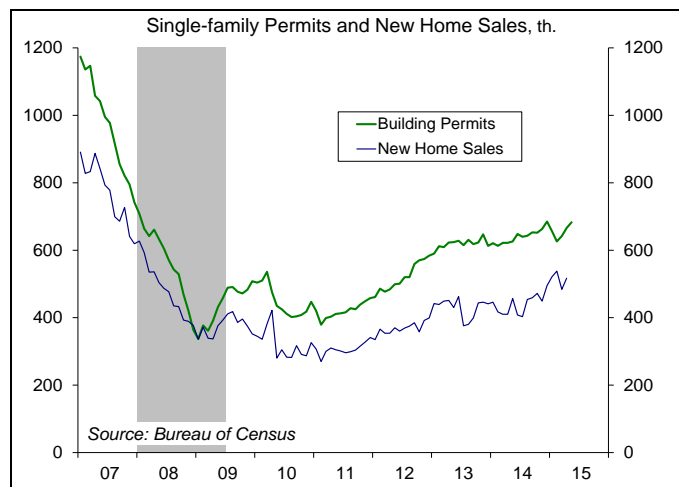


Day Market Commentary

Treasury Issues (ch. from prior close, yield)								Dollar				Equities			
13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	\$ / €	\$ / £	¥ / \$	CD / \$	DJIA	SP500	Nasdaq	R2K
.00	.00	+00	-.01	-.02	-.04	-.04	+04	-.003	+.005	-.005	-.003	+113.31	+11.86	+25.58	+8.49
0.01	0.10	0.26	0.69	1.08	1.66	2.31	3.04	1.125	1.565	123.36	1.230	17904.48	2096.29	5055.55	1269.53

Tuesday: Construction data were mixed, with building permits and housing starts moving in sharply different directions. Equity futures had initially suggested that the U.S. would follow European markets lower, but sentiment turned positive ahead of the open. In the afternoon, the major stock market indices added to the morning's gains. The clock is still ticking on Greece, but investors now appear to be less fearful of the Fed.

Economic Releases	Period	Actual	Previous
Building Permits, mln	May	1.275	1.140
single-family % change		+2.6	+3.7
multi-family % change		+24.9	+19.7
Housing Starts		1.036	1.165
single-family % change		-5.4	+15.4
multi-family % change		-20.2	+34.7
Avg. Gasoline Price (EIA)	6/15	2.835	2.780
13-week average		2.619	2.590



Residential construction figures for May were mixed. Building permits jumped 11.8% (following +9.8% in April), reflecting further strengthening in single-family activity and the usual volatility in the multi-family sector. Permits rose across all four regions (+4.4% in the Northeast, +8.0% in the Midwest, +0.8% in the South, and +2.6% in the West). Note that the increase in permits will add 0.34 to the May Index of Leading Economic Indicators (due June 18 – now seen likely to have risen 0.7% or 0.8%, depending on the rounding). Housing starts fell 11.1% in

May (following a 22.1% rise in April), but there is a huge amount of statistic noise in these figures. A 90% confidence interval for the monthly change in single-family starts was -12.4% to +1.6% (hence, not statistically different from 0%).

Retail gasoline prices continued to rise in the latest week, up about 80 cents (38.7%) from the late-January low. The average price was still down 23.1% from a year earlier. Note that, reflecting the usual seasonal pattern, gasoline prices normally rise about 14% in the first five months of the year, but fall back over the remainder of the year.

Today: The focus will be on the Fed, with the FOMC policy statement and the Summary of Economic Projections (SEP) at 2:00 p.m., followed by Fed Chair Yellen's press conference a half an hour later. The wording of the policy statement should be little changed. The dots in the dot plot ought to drift a little lower. Yellen is expected to repeat that economic conditions are likely to warrant an initial increase in short-term interest rates later this year, although it's doubtful that she will provide a precise timetable. The financial markets often express relief once the Fed meeting is out of the way, but some of that may have already been reflected in Tuesday's market action.

In the April 29 policy statement, the FOMC recognized slower growth but blamed 1Q15 weakness on "transitory factors." Recent data suggest that growth is now rebounding. However, policymakers should want to see even further signs of strength before raising rates. Assuming that the economic data fall in line with expectations, this logic would leave September as the most likely starting point – but it will depend on the data.

All participants at this meeting (the five governors and 12 district bank presidents) will submit revised forecasts of growth, unemployment, and inflation. They will also give projections of the appropriate year-end federal funds target rate for each of the next few years. While Chair Yellen has cautioned against reading too much into minor movements in the dots (there is a lot of uncertainty in each individual forecast), the plot should be consistent with a very gradual path for short-term rate increases in the quarters ahead. Yellen is expected to stress this gradual rate hike outlook in her post-meeting press conference.

Today's Releases:	Period	Forecast	Consensus	Previous	Comments
2:00 FOMC Policy Statement					expecting minor changes
2:00 Fed Summary of Econ Proj.					dots likely to be revised a bit lower
2:30 Yellen Press Conference					repeating recent themes