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SEPTEMBER 30, 2009, 3:57 P.M. ET

RATE FUTURES REPORT: Still In Limbo On Rate-Hike Timing

Article

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By Howard Packowitz
 OF DOW JONES NEWSWIRES

CHICAGO (Dow Jones)--U.S. interest rate futures traders continued playing a guessing game Wednesday.

They wondered about the timing of an economic recovery, and when the Federal Reserve and other global central banks will begin to sop up massive liquidity pumped into the credit-weary financial system.

Answers to traders' questions remain a mystery, although Eurodollar futures prices wound up a little higher. That translates into expectations for modestly lower short-term rates.

A major catalyst for buying came from an economic report that was a setback for hopes of an imminent recovery.

The Institute for Supply Management-Chicago said Wednesday that its business barometer fell to 46.1 in September, down from a neutral reading of 50.0 in August. Economists surveyed by Dow Jones Newswires projected the index would rise to 52.5, which would have shown economic expansion.

The report is significant because the barometer reading fell below 50, indicating contraction in the economy, said rate futures floor broker Mark Hawkinson, of Newedge USA.

The barometer is a survey of purchasing professionals in the Chicago area. The weaker-than-expected Chicago data raised the specter of downside risk for Thursday's Institute for Supply Management's September manufacturing index, a survey of purchasing managers nationwide.

The consensus estimate from the Dow Jones Newswires economists' survey predicts the September ISM index to climb to 54.0, from 52.9 in August. The ISM report is due for release Thursday at 10 a.m. EDT.

Wednesday's data disappointment seemed to bolster the view expressed by Federal Reserve Vice Chairman Donald Kohn, who's cautious about recovery prospects.

Speaking to the Cato Institute, Kohn said inflation is subdued and credit restraints are likely to slow the economic recovery. As a result, he sees the rates staying very low for an extended period.

The Fed has kept the short-term federal-funds rate at a lowest-ever range of 0% to 0.25% since December 2008 to help stimulate the economy.

However, some Fed officials in recent days have talked about the need for aggressive rate hikes to curb inflation from very accommodative monetary policies.

"They're not all in line," said Hawkinson, referring to varying opinions among Fed members.

While short-term Eurodollar futures prices settled higher, early 2010 fed-funds futures were generally stable.

The March fed-funds contract priced in about a 54% chance for the Federal Open Market Committee to raise the funds rate to 0.5% at the March 15 meeting. That's unchanged from Tuesday.

May fed-funds futures were still fully priced for the FOMC to reach 0.5% at its late April rate-setting session, but factored in very slim odds of a further tightening to 0.75%.

CONTRACT	SETTLE	CHANGE
Dec Fed Funds	99.825	Up 0.5 basis point *
Feb '10 Fed Funds	99.73	Unchanged
Mar '10 Fed Funds	99.68	Unchanged

May '10 Fed Funds	99.485	Up 1 basis point
Dec Eurodollars	99.63	Up 1 basis point
Mar '10 Eurodollars	99.375	Up 3 basis points
Jun '10 Eurodollars	98.03	Up 3.5 basis points
Sep '10 Eurodollars	98.635	Up 3.5 basis points
Dec '10 Eurodollars	98.245	Up 3 basis points
Dec 10-Year Notes	118-10+	Up 1/32
Dec 30-Year Bonds	121-12	Dn 8/32

* A basis point is equivalent to 1/100th of a percentage point.

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