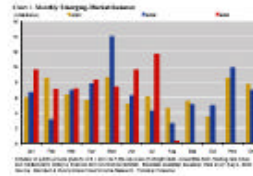




Emerging
Markets
Weekly



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Tumbling of the U.S. Housing Market

After an unprecedented performance that helped to fuel U.S. economic growth for roughly five years, the housing market has recently become a drag on the economy. U.S. Federal Reserve Board chairman, Ben Bernanke, while acknowledging the soft landing of the economy, highlighted that the cooling housing market poses a 'downside risk' to the favorable U.S. economic outlook.

Statistics compiled by the Office of Federal Housing Enterprise Oversight reflect symptoms of a definite softening in the U.S. housing market. The average price of U.S. homes slowed to an increase of around 1.2% in the second quarter 2006, half the pace of 2.2% growth recorded in the previous three months. This represented the sharpest quarterly housing price deceleration in twenty-six quarters dating back to the fourth quarter of 1999. Many analysts believe that the deflating housing bubble was inevitable in light of the sharp appreciation in home prices last year, which eventually limited options for many consumers.

New and existing home sales have been down by more than 10% from their peaks in 2005 in which home owners thought that prices would only continue to move upwards. The average monthly sale price on a new one-family home in July 2006 stood at U.S.\$293,500, marginally higher than U.S.\$290,600 one month prior. Average price appreciation grew at a record pace in the last three quarters of 2005, hitting the highest point at 3.65% in second quarter of 2005.

Probable driving forces behind the softer U.S. housing market involve the tightening of U.S. monetary policy in an effort to curb surging inflationary pressures, a dip in consumer confidence and the rising stockpile of home inventories. Despite higher supply, rising mortgage rates are starting to amplify affordability pressures on potential home owners. Mortgage interest rates jumped to 6.60% in the second quarter from 6.25% in the first quarter of 2006. In response, home sellers are becoming nervous as the present U.S. housing market turns into a buyer's market, forcing sellers to settle for lower prices and to wait for longer periods. Consequently, an excess supply in the amount of unsold existing homes in July represented 6.5 months of housing coverage at current sales rate, one of the largest accumulation in the decade while mortgage financing collapsed by 28% year on year.

The wealth-effect of the consumer backed by house price appreciation has empowered the confidence of U.S. citizens in the past, thus acting as an economic driver for domestic consumption, employment and hence overall economic activity. The indirect effect of the housing bubble is even larger as persons used the appreciated value of their property as collateral for increased spending. The adverse affects of the continued housing market cooling and a likely bursting of the U.S. housing bubble could mirror the early warning symptoms of a possible U.S. recession and thus constrain the resilience of the U.S. economy.

FINANCIAL & ECONOMIC INDICATORS

As at 7th September 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	116.43	117.40
Euro	1.27	1.28
Jamaica	65.96	65.96
Guyana	200.7	200.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	67.32	70.26
Natural Gas (US\$/mmbtu)	5.73	5.84
Gold (US\$/Troy Ounce)	616.8	627.30

Eurobond Indices (Returns, % YTD as of 07-September-06)

Lehman Brothers Global Aggregate Index	1.57
JP Morgan EMBI+	-20.08
CMMB Eurobond Index	2.17

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.25	5.25
Euro Zone	3.00	3.00
Japan	0.25	0.25
Brazil	14.17	14.25
Trinidad	7.75	7.75
Jamaica	12.15	12.15
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.84	4.91
US 10-Yr Treasury	4.79	4.73
3-month UK Libor	4.99	4.98
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	13.94	14.03
TT 90-day T-Bill	6.47	6.42
Jamaica 90-day T-Bill	12.29	12.29
Barbados 90-day T-Bill	5.20	5.20

Sources: Bloomberg, CMMB Research Centre, CMMB Risk Department, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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