

• Another down week in trading due to Greek and Spanish debt concerns was followed up by news Friday from JPMorgan of billion dollar losses on hedging with credit contracts, leading yields and equity futures lower still as we approach this morning's open. The fracturing of leadership in Greece that failed to form a coalition government over the last week points that country towards another election in June. Depending on the new vote, parties opposing the debt bailout and EU involvement could win more power and push for Greece to exit the monetary union, which will cost about \$500 billion, based on current estimates. Spain nationalized BFA-Bankia last week, committing some \$15-20 billion in future support and forcing all large banks to increase bailout capital provisions. In good European news, Italian bond auctions went relatively well today (3.91% for three year paper!), but worries persist. All this renewed Euro-carnage continues to point investors to the safety of US Treasuries, where yields approach all time lows at most maturities even though the Fed's Operation Twist is set to wrap up this summer. As for JPMorgan's chief investment office in London that lost \$2 billion last week, could lose more in the coming months, and whose leadership is resigning presently, all we can say is that hedging credit risk, using CDS contracts or credit indices, is a different beast altogether from hedging cash flows, commodities, or currency fluctuations. Correlation may be impossible to accurately model--beware. In last week's data, we saw headline producer prices contract -0.2% MoM and the core reading ex food and energy rose 0.2%, both lower than expectations. The trade deficit widened to -\$5.18 billion in March, with exports holding strong but non-petroleum imports surging in a sign of steady demand. April's export prices rose 0.4% MoM, doubling estimates, while import prices fell -0.5%, helping to silence inflationary concerns for the time being. Jobless claims came in at 367k for the week, basically flat WoW but 12,000 better than the four-week moving average.

• Europe will dominate the trade this week, and banking regulation will return to the spotlight as the public digests JPM's travails. Tuesday will be a busy data for economic indicators, with retail sales kicking it off and expected to advance 0.1% MoM headline and 0.3% ex autos and fuel. The consumer price index (CPI) should mimic last week's PPI according to economists, flat on the headline and +0.2% MoM on the core. Empire manufacturing and Philly Fed surveys are expected to top last month's outputs, and the Federal Reserve will release the minutes from the last FOMC meeting on Wednesday, when scholars will pour over the verbiage for signs of further easing tendencies as the market starts to stall once again. Leading indicators are expected to advance only 0.1% MoM as the spread between short and long rates continues to compress and housing remains soft.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.24%	0.24%	0.24%	0.20%
3-month LIBOR	0.47%	0.47%	0.47%	0.26%
6-month LIBOR	0.73%	0.73%	0.73%	0.42%
12-month LIBOR	1.06%	1.05%	1.05%	0.74%
Fed Funds Target	0.25%	0.25%	0.25%	0.25%
Prime Rate	3.25%	3.25%	3.25%	3.25%
SIFMA Muni Swap Index	Call	0.23%	0.23%	0.21%

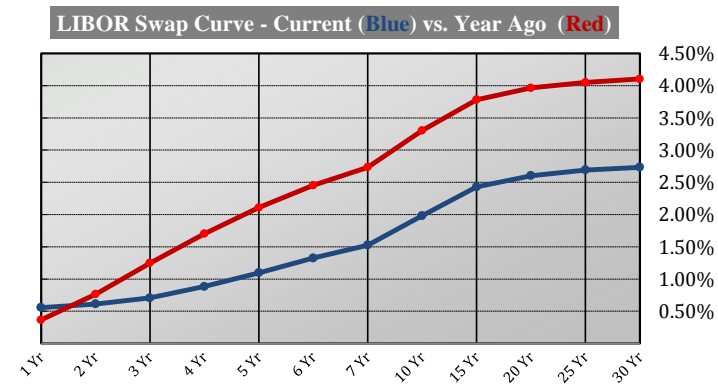
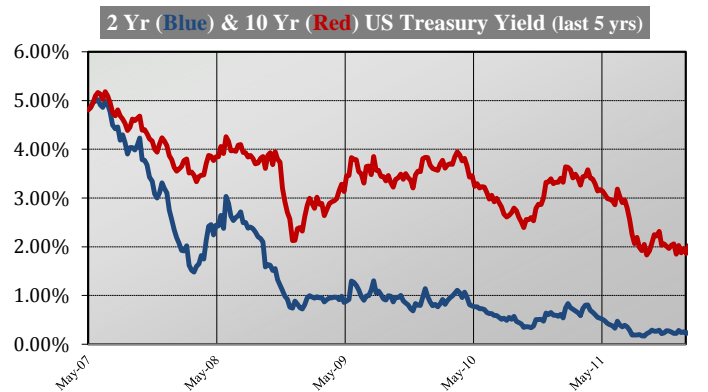
Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.26%	0.26%	0.29%	0.59%
3-yr Treasury	0.36%	0.37%	0.43%	0.98%
5-yr Treasury	0.75%	0.78%	0.88%	1.91%
7-yr Treasury	1.23%	1.28%	1.41%	2.58%
10-yr Treasury	1.84%	1.88%	2.04%	3.21%
30-yr Treasury	3.01%	3.07%	3.20%	4.35%
2s-10s Spread	1.58%	1.62%	1.74%	2.63%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	0.43%	0.38%	0.42%	0.69%
3-yr LIBOR Swap	0.55%	0.51%	0.56%	1.17%
5-yr LIBOR Swap	0.96%	0.96%	1.04%	2.03%
7-yr LIBOR Swap	1.40%	1.41%	1.53%	2.65%
10-yr LIBOR Swap	1.87%	1.91%	2.02%	3.21%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	0.41%	0.37%	0.39%	0.67%
3-yr SIFMA Swap	0.51%	0.48%	0.52%	1.03%
5-yr SIFMA Swap	0.87%	0.86%	0.93%	1.69%
7-yr SIFMA Swap	1.25%	1.26%	1.33%	2.20%
10-yr SIFMA Swap	1.67%	1.68%	1.78%	2.67%

Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	16	12
5-yr LIBOR Cap	62	47
7-yr LIBOR Cap	166	120
10-yr LIBOR Cap	390	279

Fwd Implied 3mL Rate	Last	Conventions
Dec. 12	0.60%	LIBOR swaps use 1-month LIBOR, monthly payments, act/360 day count for both legs. SIFMA swaps reset weekly and pay monthly, act/act day count. All else equal, amortizing swaps will have lower rates. For %of LIBOR swaps, multiply the % used by the taxable swap rate. No amortization.
Dec. 13	0.67%	
Dec. 14	1.01%	
Dec. 15	1.61%	



Cardea Partners is a firm of seasoned professionals dedicated to bringing transparency of execution and structuring to end-users in the interest rate swap marketplace. We help our clients get great pricing and clarity when dealing with interest rate caps and other options, mandatory hedge requirements, accounting and effectiveness testing demands, ISDA negotiation, and dealing with old transactions. Don't hedge without us!

**Cleveland, OH** (440-892-8000)      **San Francisco, CA** (925-988-0703)      **Miami, FL** (954-642-1270)