Interest Rate Market Insight

July 20, 2015

• After a shuffling of cabinet members and a grudging vote in the Greek parliament, that nation's banks reopened this morning after a three week holiday, and the finance ministry authorized the repayment of nearly $7.5 billion in debt after creditors granted Greece another lifeline. While the negotiations could incorporate debt forgiveness and plenty of additional austerity, global markets seem poised to focus elsewhere for a time following this medium-term resolution. The Greek people may not be noticeably happier now, but frankly the society needs an adjustment if it is to survive as a developed nation. Most global markets cheered the news last week, as the United States equity markets advanced some 2% WoW, with only a slight rise in shorter term rates--the long bond actually dipped 11 basis points WoW. In between partisan badgering during Congressional testimony, Fed Chair Yellen made it clear that rate policy would still likely tighten in 2015, the troubles that ail the economy and labor force presently may be transitory, and that she remains concerned about growing inequality in the US. She believes that wage growth remains muted and are failing to keep up with productivity, even though the latter has also dipped.

• The data releases last week were fairly mixed, with the most notable weakness coming from the retail sales report, which fell -0.3% on the headline and -0.2% on the core for the month of June. While Empire State Manufacturing and Philly Fed surveys were both in the black, business inventories, like wholesale figures the week prior, grew faster than expected at +0.4% MoM. Housing remains a stealth positive for the underlying economy as homebuilder sentiment hit 60 for the first time since 2005, housing starts rose again to an annualized 1.174MM pace, and permits cleared 1.3MM annualized thanks to apartment demand. TIC data for May showed continued foreign interest in the US bond markets, while demand for equities slipped modestly, netting $93 billion in long-term capital flows. For the first time in almost three years, inflation showed up in both producer and consumer prices at or beyond expectations, with the former rising +0.4% on the headline and +0.3% on the core and the latter up +0.3% and +0.2% MoM, respectively. The monthly follow-through and any flow to wages will be closely monitored by the Federal Reserve. Industrial production rose 0.3% for June and initial jobless claims improved to 281k WoW.

• While not exactly bursting with data this week, markets will entertain the durable goods orders release, which should rebound from May's slippage. Leading indicators are expected to slow for June to +0.2% MoM after May's strong 0.7% gain. The housing data for the week shouldn't hurt the positive trends for new and existing home sales, although the former's sales pace could have inched lower in June near 546,000 annualized sales. FHFA home prices are expected to show an increase of +0.4% MoM in June, and Markit's flash PMI reading for the manufacturing sector is expected to hold firm at an indication of 53.6, which constitutes continued growth in the sector.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.19%	0.19%	0.19%	0.16%
3-month LIBOR	0.29%	0.29%	0.29%	0.23%
6-month LIBOR	0.46%	0.45%	0.45%	0.33%
12-month LIBOR	0.78%	0.76%	0.79%	0.55%
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	0.04%	0.08%	0.05%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.67%	0.64%	0.65%	0.45%
3-yr Treasury	1.05%	1.03%	1.03%	0.92%
5-yr Treasury	1.67%	1.66%	1.63%	1.62%
7-yr Treasury	2.08%	2.10%	2.04%	2.09%
10-yr Treasury	2.35%	2.40%	2.32%	2.45%
30-yr Treasury	3.08%	3.19%	3.09%	3.27%
2s-10s Spread	1.68%	1.76%	1.67%	2.00%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.87%	0.89%	0.63%
3-yr LIBOR Swap	Call	1.21%	1.23%	1.05%
5-yr LIBOR Swap	Call	1.73%	1.72%	1.69%
7-yr LIBOR Swap	Call	2.10%	2.04%	2.10%
10-yr LIBOR Swap	Call	2.42%	2.33%	2.49%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.40%	0.42%	0.36%
3-yr SIFMA Swap	Call	0.66%	0.68%	0.67%
5-yr SIFMA Swap	Call	1.15%	1.16%	1.26%
7-yr SIFMA Swap	Call	1.50%	1.49%	1.67%
10-yr SIFMA Swap	Call	1.84%	1.81%	2.09%

All else equal, amortizing swaps and caps will have lower rates and costs, respectively. Please call for specific structure pricing requests.

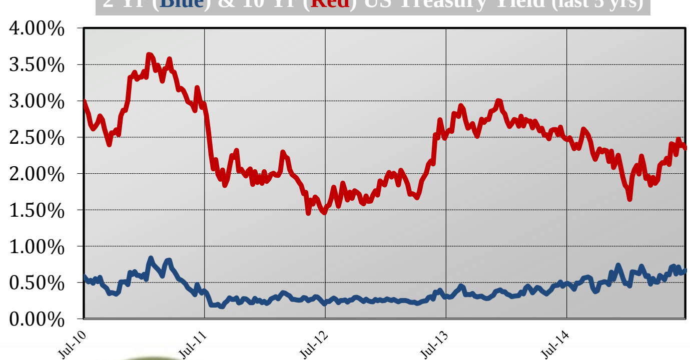
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	31	16	9	7
4-yr LIBOR Cap	79	39	22	26
5-yr LIBOR Cap	147	75	40	45
7-yr LIBOR Cap	319	194	98	96

Fwd Implied 3mL Rate	Last
Dec. 15	0.54%
Dec. 16	1.36%
Dec. 17	2.03%
Dec. 18	2.50%

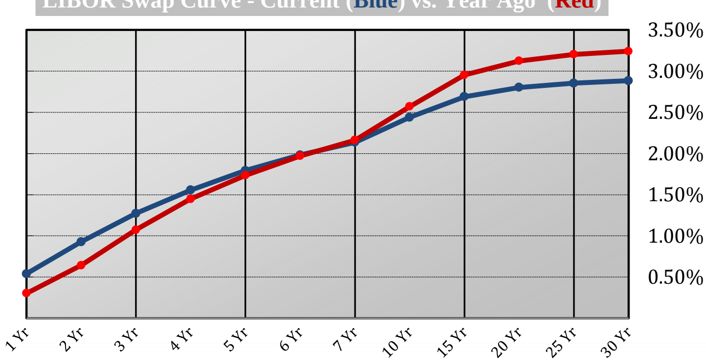
Conventions

Source: Bloomberg. LIBOR swaps use 1-month LIBOR, monthly payments, act/360 for both legs. SIFMA swaps reset weekly and pay monthly, act/act. For %of LIBOR swaps, multiply the %used by the taxable swap rate. No amortization.

2 Yr (Blue) & 10 Yr (Red) US Treasury Yield (last 5 yrs)



LIBOR Swap Curve - Current (Blue) vs. Year Ago (Red)



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