INTEREST RATE MARKET INSIGHT

JUNE 1, 2015

• Today begins the third third of the second quarter of 2015, and everyone is looking for a spark (Jobs Friday!?) to the domestic economy after more signs of softness abound. With Greece running past another one of its self-imposed deadlines for budgetary agreements with creditors, both sides are blaming the other, with Greek PM Tsipras amusingly choosing France's Le Monde for an op-ed to rip the German-led finance cohort looking for additional concessions. Despite the disappointing argument over fault persisting, it seems improbable still that Greece will leave the EU. At home, Q1 GDP was revised lowered to a contracting -0.7% QoQ annualized, accompanied by a personal consumption metric of 1.8% and a price index that fell 0.1%. Durable goods orders fell 0.5% MoM on the headline, but ex transportation rose 0.5% actually. Our publicly traded equity markets settled fractionally lower for the week, and Treasury paper beyond the 3-year curve node drew the bids, leaving the majority of the curve down 7-11 bps WoW. If the consumer leads a second half recovery in the US, look for the short end of the yield curve to get much more volatile as the Federal Reserve seems welcome enough to act in the next quarter even as the data disappoint presently.

• New home sales did rise and narrowly top estimates (+6.8%) for the month of April along with pending home sales (+3.4%), fortunate signs for the housing market that so powerfully impacts growth and inflation in the economy. S&P Case-Shiller and FHFA both showed another month of price advances in the space. Still, core PCE inflation in the GDP report rose only 0.8% QoQ. The May reading of the Chicago purchasing managers index crumpled to 46.2 from 52.3 in April, and initial jobless claims rose to 282k WoW, the gauge's first disappointment in quite some time ahead of all the payroll data for May this week. In the first release of a busy data week, personal income and spending just reversed March's change, with income up 0.4% MoM and spending flat after income was flat and spending was up four tenths in March. The inflation component was once again muted, with the MoM PCE deflator being flat and the annualized core rate dipping to 1.2%. Interest rates and positive equity futures have dipped slightly on the release, which will be followed later this morning by construction spending (+0.8% MoM consensus) and the manufacturing index releases from ISM and Markit, both of which should stay above 52 in growth for May.

• Nonfarm payrolls are expected to rise 225k for the month of May when released on Friday, with 220k of the those in the private sector, with a 5.4% unemployment rate and a +0.2% MoM gain in hourly earnings expected, which would be +2.2% year over year. Preceding the big release are, as ever, ADP private payrolls (+200k projected after a softer 169k advance in April) and Challenger job cuts. Economists forecast strong service sector gauges from ISM and Markit as well, above 56, a trade balance that should contract to -$44 billion in April, much closer to its long run average, and a nearly 3% decline in nonfarm productivity in Q1 in tandem with a 6% rise in unit labor costs.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.18%	0.18%	0.18%	0.15%
3-month LIBOR	0.28%	0.28%	0.28%	0.23%
6-month LIBOR	0.42%	0.42%	0.41%	0.32%
12-month LIBOR	0.75%	0.74%	0.70%	0.53%
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	0.11%	0.11%	0.06%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.61%	0.62%	0.56%	0.38%
3-yr Treasury	0.93%	1.00%	0.89%	0.77%
5-yr Treasury	1.49%	1.56%	1.42%	1.53%
7-yr Treasury	1.87%	1.96%	1.79%	2.03%
10-yr Treasury	2.12%	2.21%	2.04%	2.47%
30-yr Treasury	2.88%	2.99%	2.75%	3.32%
2s-10s Spread	1.52%	1.59%	1.48%	2.09%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.86%	0.78%	0.49%
3-yr LIBOR Swap	Call	1.19%	1.08%	0.87%
5-yr LIBOR Swap	Call	1.65%	1.52%	1.56%
7-yr LIBOR Swap	Call	1.95%	1.81%	2.04%
10-yr LIBOR Swap	Call	2.22%	2.06%	2.49%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.41%	0.40%	0.29%
3-yr SIFMA Swap	Call	0.67%	0.64%	0.56%
5-yr SIFMA Swap	Call	1.12%	1.05%	1.17%
7-yr SIFMA Swap	Call	1.43%	1.35%	1.63%
10-yr SIFMA Swap	Call	1.73%	1.62%	2.09%

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

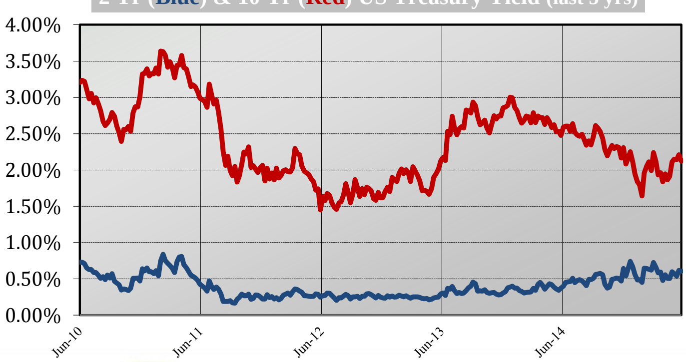
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	28	14	12	10
4-yr LIBOR Cap	70	35	19	27
5-yr LIBOR Cap	136	67	36	47
7-yr LIBOR Cap	294	189	93	102

Fwd Implied 3mL Rate	Last
Dec. 15	0.56%
Dec. 16	1.36%
Dec. 17	1.93%
Dec. 18	2.31%

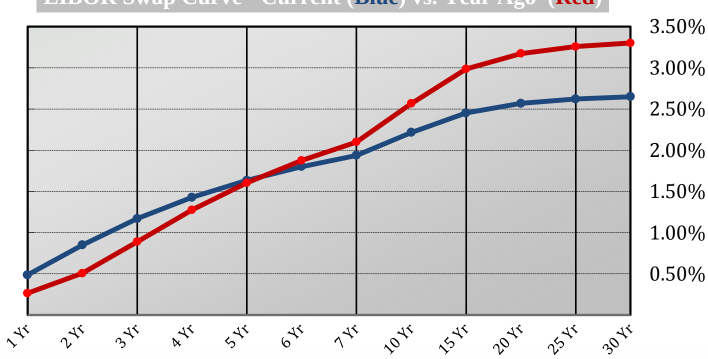
Conventions

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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