

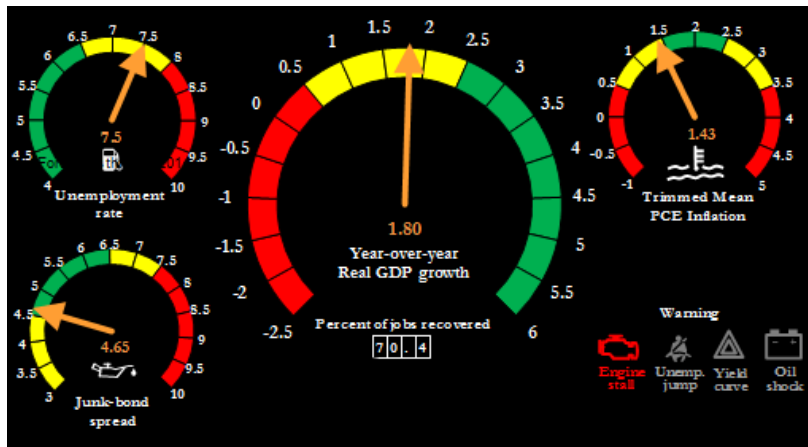
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.20%	0.20%	0.00% ○
3-Month LIBOR	0.28%	0.28%	0.00% ○
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
US Treasury Yields			
2-year Treasury	0.24%	0.24%	0.00% ○
5-year Treasury	0.83%	0.81%	0.02% ↑
10-year Treasury	1.95%	1.90%	0.05% ↑
Swaps vs. 3M LIBOR			
2-year	0.46%	0.47%	(0.01%) ↓
5-year	1.06%	1.07%	(0.01%) ↓
10-year	2.16%	2.14%	0.02% ↑

Fed Speak & Economic News:

During the course of last week, Federal Reserve Chairman Bernanke and several officials offered diverging views on the outlook for monetary policy. While future direction remained rather vague, certain factors dictated the tone of the rhetoric. Although the labor market has experienced monthly payroll growth averaging 208,000 over the last six months, as opposed to the 141,000 during the six months prior to the third round of quantitative easing, poor labor market participation remains troubling. Coupled with record long-term unemployment as well as a jobless rate that remains above pre-recession levels, structural changes to the job market resulting from innovation and globalization further threaten the ability to eventually strive for “full employment” – however pundits choose to define that. As Dallas President Richard Fisher described it, this scenario and Congress’ crippling fiscal policy fail to create an environment that enables people to jump on or climb the corporate ladder. Mr. Fisher, Philadelphia President Charles Plosser, Richmond President Richard Lacker and, surprisingly, historically dovish San Francisco President John Williams have promoted a move to wind down purchases as early as June in the spirit of improvements to the labor and housing markets. In fact, the success story of housing has led Fisher, Plosser and Lacker to suggest curtailing mortgage-backed security purchases before any changes to Treasury purchases. Conversely, Boston President Eric Rosengren cites fiscal headwinds as driver for his argument to maintain current levels of purchases, pointing to the pressure that tightening could put on both the labor market and inflation. Likewise, Minneapolis President Narayana Kocherlakota dovishly suggested that more easing in the form of even lower interest rates should be pursued, saying that the benefits of quantitative easing would outweigh the threat of runaway inflation. With another busy week of Fed rhetoric ahead, we can expect more dovish perspectives from Chicago’s Charles Evans hitting the wires today, followed by New York’s William Dudley tomorrow and Chairman Bernanke on Wednesday. Bernanke will testify on the central bank’s outlook before the Joint Economic Committee while May’s FOMC meeting minutes are also set to be released on the same day.

U.S. Economic Dashboard



As of May 9th, Dallas Fed’s Research Director Harvey Rosenblum compiled relevant macroeconomic data to illustrate the current predicament we face. In terms of job creation, we see that 70.4% of jobs lost in the recession have been recovered, up from 50% last year. Sticking with the automotive theme, it is clear that the Fed as the mechanic has lubricated the engine for economic growth. We can only hope it doesn’t cost us an arm and a leg on the way out.

U.S. Economic Data

- Advance retail sales grew by 0.1% instead of a forecasted contraction while manufacturing indexes for the New York and Philadelphia regions declined. Most economists expected an expansion of manufacturing in those areas.
- Producer and consumer price levels fell in line with analyst forecasts as they contracted by 0.7% and 0.4%, respectively, from the prior month due to a sharp fall in energy costs offset somewhat by slightly higher food prices.
- While the housing sector has been a beacon of hope, housing starts for April slumped 16.5%. In spite of this, consumer sentiment surged to its highest level since 2007 as stocks continued their rally.

Date	Indicator	For	Forecast	Last
20-May	Chicago Fed National Activity Index	Apr	(0.5%) A	(0.2%)
22-May	Existing Home Sales MoM (%)	May	1.2%	(0.6%)
22-May	FOMC Meeting Minutes	Apr 30 - May 1		
23-May	Housing Price Index MoM (%)	Mar	0.8%	0.7%
23-May	New Home Sales MoM (%)	Apr	1.9%	1.5%
24-May	Durable Goods Orders	Apr	1.5%	(5.7%)

Source of Chart Data: Federal Reserve Bank of Dallas Source of Financial Data: Bloomberg

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