Interest Rate Market Insight

April 6, 2015

• The Friday jobs report was like a tree falling in the woods with the equity markets being closed for the holiday--a smaller than expected tree, that is. The bond market did have the opportunity to rally in a half-day session, pushing interest rates lower and the benchmark 10-year Treasury yield to 1.84%. The euro has rallied all the way to $1.10 from its recent low of $1.0496. So the shroud that had been covering most of the data year-to-date finally caught up with nonfarm payrolls, which rose only 126k MoM, while the 5.5% unemployment rate held steady. Revisions were negative as well at -69k, but hourly earnings rose 0.3% to give some sign of life and allow many economists to point once again to the weather. While June may be off the table now for a Fed tightening, the rallying call for a Q2-Q3 economic rebound make the September meeting all the more interesting. The Fed's median year-end projection for the target rate was 0.625% in March, the futures market sees 3-month LIBOR at 34 bps then, and the Taylor Rule implies a 2.5% rate based on unemployment and inflation in a vacuum, so the convergence to reality will prove many wrong. The Iranian nuclear talks ended with an extension to finalize terms, although both sides have their skeptics.

• ADP caught the same trend as NFPs for the month of March, with only 189,000 private payrolls added, although its revisions went higher as a result of its relative pessimism in months prior. The personal income and spending report for February showed strength in the former and softness in the latter, hitting 0.4% and 0.1% MoM gains, respectively, while the core PCE inflation gauge was in-line at +0.1% MoM and 1.4% YoY. Chicago PMI missed badly and showed contraction with a reading of 46.3. ISM's manufacturing survey fell more than expected to 51.5, while Markit's complementary version rose slightly to 55.7. The trade balance was about $6 billion better than expected at -$35.4 billion, and factory orders rose 0.2% MoM for February when a decline of 0.4% was anticipated. Initial jobless claims almost hit their lowest levels of the recovery at 268k WoW, and the S&P Case-Shiller home price index rose 0.9% MoM (4.6% YoY) amidst continuing supply constraints. Greece's finance minister indicated over the weekend that the indebted nation will be able to make its $500 million debt service payment on April 9th. The unofficial start of Q1 earnings season comes this week with a quarterly report from aluminum producer Alcoa.

• The data calendar is light this week, so the focus might trend to the release of the FOMC minutes Wednesday afternoon. Treasury will auction $58 billion of 3-, 10-, and 30-year paper midweek, so there may be supply pressure to lift rates from these intermediate lows. The services survey from ISM is expected to hold up much better than its manufacturing counterpart around 56.7, and Markit is projecting higher. Import and export prices for March are expected to decline, while the wholesale trade report should show a 0.2% inventory build. Consumer credit (autos, student, and credit card loans) likely rose by $14 billion in February, compared to an $11.6 billion expansion in January.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.18%	0.18%	0.17%	0.15%
3-month LIBOR	0.27%	0.28%	0.27%	0.23%
6-month LIBOR	0.40%	0.40%	0.39%	0.33%
12-month LIBOR	0.69%	0.70%	0.69%	0.56%
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	0.02%	0.02%	0.06%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.48%	0.60%	0.68%	0.46%
3-yr Treasury	0.78%	0.93%	1.07%	0.93%
5-yr Treasury	1.25%	1.44%	1.61%	1.80%
7-yr Treasury	1.60%	1.76%	1.94%	2.39%
10-yr Treasury	1.84%	1.96%	2.12%	2.80%
30-yr Treasury	2.49%	2.54%	2.72%	3.63%
2s-10s Spread	1.36%	1.37%	1.44%	2.34%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.81%	0.90%	0.56%
3-yr LIBOR Swap	Call	1.12%	1.26%	1.02%
5-yr LIBOR Swap	Call	1.54%	1.71%	1.84%
7-yr LIBOR Swap	Call	1.78%	1.96%	2.37%
10-yr LIBOR Swap	Call	2.00%	2.18%	2.83%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.43%	0.45%	0.33%
3-yr SIFMA Swap	Call	0.68%	0.73%	0.66%
5-yr SIFMA Swap	Call	1.10%	1.20%	1.36%
7-yr SIFMA Swap	Call	1.37%	1.50%	1.88%
10-yr SIFMA Swap	Call	1.62%	1.76%	2.36%

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

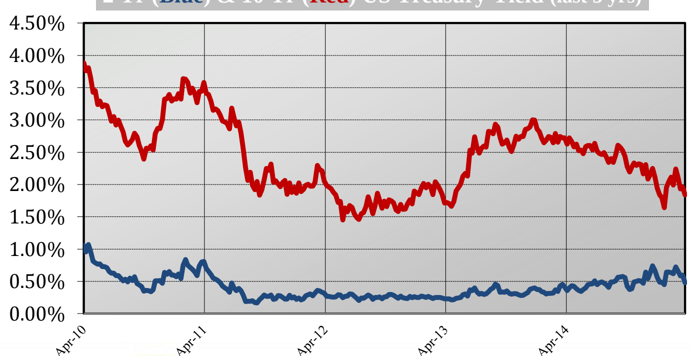
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	28	18	8	11
4-yr LIBOR Cap	69	45	34	28
5-yr LIBOR Cap	122	81	60	48
7-yr LIBOR Cap	272	182	89	105

Fwd Implied 3mL Rate	Last
Dec. 15	0.60%
Dec. 16	1.28%
Dec. 17	1.78%
Dec. 18	2.11%

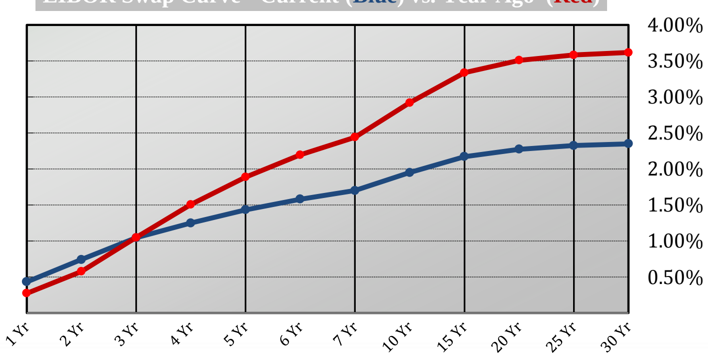
Conventions

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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