Interest Rate Market Insight

April 14, 2014

• The holiday week means only four days of trading until Good Friday, and many traders will be enjoying spring breaks as the mid-month data calendar is not expected to move markets appreciably from their current course. Corporate earnings season got off to an inauspicious start last week, doing little to keep markets from abandoning momentum plays and flooding safer sectors with capital. The tech-laden Nasdaq market lost 3% WoW, and the minutes from the FOMC meeting released Thursday gave investors a sense that the coming tightening perceived from the Yellen press conference was much less likely, which flattened the yield curve and pushed longer yields down by more than 10 basis points past the 5-year tenor. Ukrainian tensions rose over the weekend as eastern border towns experienced separatist rallies and some gunfire, causing EU and US leadership to talk up more sanctions ahead of meetings with Russia later this week. As equity gauges pulled back from recent highs, 1-year LIBOR hit an all-time low below 0.55% this week as a fed funds target below 25 bps into next summer means perhaps only one more year of floating rates near zero. Nothing in the data is likely to stop the taper of asset purchases, however the softness in GDP coupled with Friday's PPI for final demand running hot (0.5% headline, 0.6% core MoM with consensus at 0.1% and 0.2%, respectively) could give a governor or two cause for concern. Import and export prices also rose beyond consensus on a monthly basis to add to the pressure a touch--the Federal Reserve fears stagflation like nothing else, and rightfully so. The sell-off allowed the longer-dated Treasury auctions to catch bids, absorbing supply that the Fed no longer desires to purchase. Jobless claims unexpectedly fell to 300k on the week, their lowest level since early 2007. In early action this morning, retail sales surged 1.1% MoM (0.7% ex autos) in March, showing that the break in the winter weather was heartily welcomed by consumers and that consensus from economists at 0.3% MoM gains for both metrics was too conservative. February was revised slightly higher as well, and the data positives have pushed already gaining equity futures markets that much higher in the premarket trade.

• The bond market will close at 2 pm on Thursday before the holiday. Apart from retail sales, the data calendar is somewhat busy, so watch the CPI report for signs of rising inflation at the consumer level after last week's surprise for producers, even though economists expect near-flat prices for the month. Business inventories and industrial production are both expected to rise MoM, Empire State and Philly Fed surveys should show advancement for the month, and leading indicators should rise 0.5% once again. Housing starts are expected to improve their annualized pace to 965k units as homebuilder sentiment should improve, and TIC data and the Beige book could move markets, too.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.15%	0.15%	0.16%	0.20%
3-month LIBOR	0.23%	0.23%	0.23%	0.28%
6-month LIBOR	0.32%	0.33%	0.33%	0.44%
12-month LIBOR	0.55%	0.56%	0.56%	0.72%
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	0.06%	0.05%	0.16%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.36%	0.41%	0.37%	0.23%
3-yr Treasury	0.80%	0.87%	0.76%	0.35%
5-yr Treasury	1.58%	1.70%	1.62%	0.73%
7-yr Treasury	2.16%	2.28%	2.24%	1.19%
10-yr Treasury	2.63%	2.72%	2.77%	1.79%
30-yr Treasury	3.48%	3.58%	3.71%	3.00%
2s-10s Spread	2.27%	2.31%	2.40%	1.56%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.53%	0.50%	0.36%
3-yr LIBOR Swap	Call	0.97%	0.88%	0.47%
5-yr LIBOR Swap	Call	1.74%	1.66%	0.88%
7-yr LIBOR Swap	Call	2.28%	2.25%	1.35%
10-yr LIBOR Swap	Call	2.75%	2.79%	1.90%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.31%	0.29%	0.26%
3-yr SIFMA Swap	Call	0.62%	0.55%	0.36%
5-yr SIFMA Swap	Call	1.29%	1.23%	0.69%
7-yr SIFMA Swap	Call	1.81%	1.80%	1.10%
10-yr SIFMA Swap	Call	2.30%	2.36%	1.60%

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

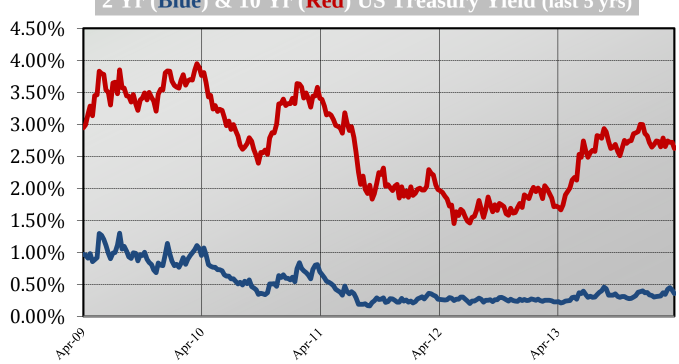
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	22	16
5-yr LIBOR Cap	123	70
7-yr LIBOR Cap	284	176
10-yr LIBOR Cap	563	375

Fwd Implied 3mL Rate	Last
Dec. 14	0.28%
Dec. 15	0.97%
Dec. 16	2.06%
Dec. 17	2.89%

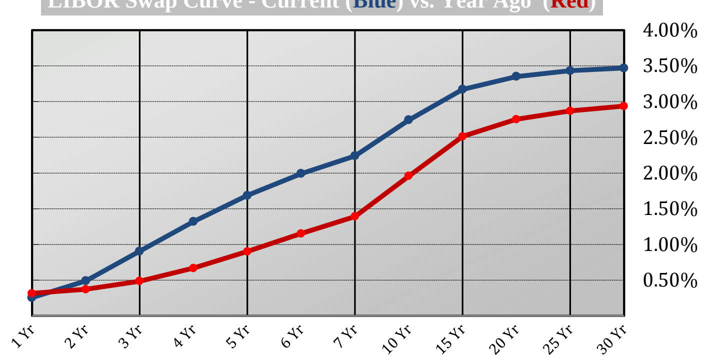
Conventions

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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