Interest Rate Market Insight

April 20, 2015

• A little Greek default revival sent markets limping into the weekend, with the S&P 500 and Dow both lower by nearly 2% intraday on Friday and a flatter, shallower yield curve pervading. While the odds are still with a resolution when ECB finance ministers and Greek officials meet later this week, politicians, particularly those elected for anti-austerity, need to save face somehow. With the Chinese economy propelling forward at only 7%, policymakers lowered the reserve requirements for banks over the weekend, which should encourage growth for the world's largest consumer of raw materials. Retail sales readings for March were positive, as autos led the way and weather impacts dissipated (+0.9% MoM headline and +0.5% ex autos and gas), but below consensus, akin to much of the recent data that walk that fine line between robust expansion of GDP and forcing the Federal Reserve's removal of stimulus. In the argument for the latter, the PPI and CPI readings did show modest inflation in March (+0.2% MoM on the headline and core for both, despite an annualized contraction persisting). However, the Fed's beige book showed softening economic activity in many of its 12 districts, despite generally improving labor markets and price levels.

• Housing starts failed to rise as much as expected in March, hitting just 926,000 annualized units and permits dipped to 1.04MM, while the homebuilder sentiment index rose 4 points MoM to 56 thanks to builder optimism heading into an undersupplied buying season. The Empire State manufacturing survey laid an egg and slipped into the negative for the second time in six months, while Philly Fed's general business condition survey rose to 7.5. Industrial production and capacity utilization both fell MoM, and leading indicators rose only 0.2% MoM. TIC data from Treasury showed a net $10 billion rise in long term foreign ownership of US assets in February, including bond purchases that moved Japan back to the #1 holder of US Treasury paper ahead of China at $1.224 trillion. Business inventories rose 0.3% MoM in February, but sales were able to keep pace. Initial jobless claims rose more than anticipated to 294k WoW, however the UofM sentiment survey rose to 95.9 to counterbalance. That report's expectation for inflation 5-10 years out fell to 2.6% from 2.8% as well. Corporate earnings were mostly a disappointment last week, with many economists getting comfortable with negative earnings growth for 2015 in their models.

• Durable goods orders for the month of March will be the biggest report this week coming Friday, with consensus expecting modest a 0.5% headline gain and a 0.3% MoM rise excluding transportation after declines for both in February. The expectation for existing home sales (5.05MM annualized) is better than for new home sales (518k) with the average 30-year mortgage rate near 3.75% still. FHFA's house price index is expected to rise 0.6% MoM to push the YoY levels close to 6% as supply remains constrained. Look for continued consolidation at these levels ahead of the two-day FOMC meeting next week with the policy statement released at 2 p.m. ET on Wednesday April 29th.

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%	0.27%	0.23%
6-month LIBOR	0.40%	0.40%	0.41%	0.32%
12-month LIBOR	0.68%	0.70%	0.71%	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	0.02%	0.02%	0.11%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.51%	0.56%	0.67%	0.40%
3-yr Treasury	0.84%	0.91%	1.07%	0.91%
5-yr Treasury	1.31%	1.40%	1.55%	1.74%
7-yr Treasury	1.64%	1.73%	1.86%	2.30%
10-yr Treasury	1.87%	1.95%	2.05%	2.72%
30-yr Treasury	2.52%	2.58%	2.60%	3.52%
2s-10s Spread	1.36%	1.39%	1.38%	2.33%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.80%	0.92%	0.53%
3-yr LIBOR Swap	Call	1.10%	1.25%	0.99%
5-yr LIBOR Swap	Call	1.51%	1.66%	1.79%
7-yr LIBOR Swap	Call	1.76%	1.89%	2.30%
10-yr LIBOR Swap	Call	1.98%	2.09%	2.76%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.41%	0.47%	0.32%
3-yr SIFMA Swap	Call	0.66%	0.75%	0.64%
5-yr SIFMA Swap	Call	1.07%	1.17%	1.34%
7-yr SIFMA Swap	Call	1.33%	1.44%	1.84%
10-yr SIFMA Swap	Call	1.59%	1.68%	2.31%

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

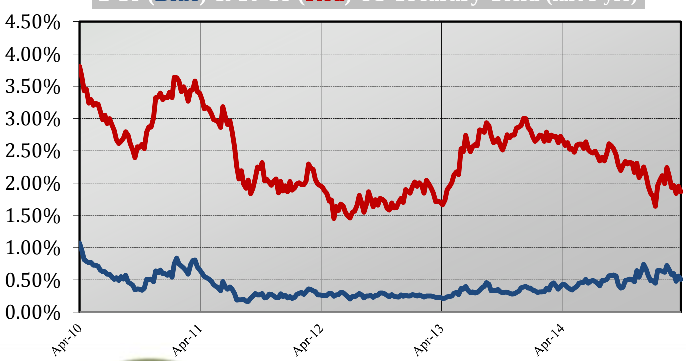
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	25	13	13	10
4-yr LIBOR Cap	64	46	21	29
5-yr LIBOR Cap	126	62	61	49
7-yr LIBOR Cap	263	178	86	103

Fwd Implied 3mL Rate	Last
Dec. 15	0.60%
Dec. 16	1.28%
Dec. 17	1.80%
Dec. 18	2.12%

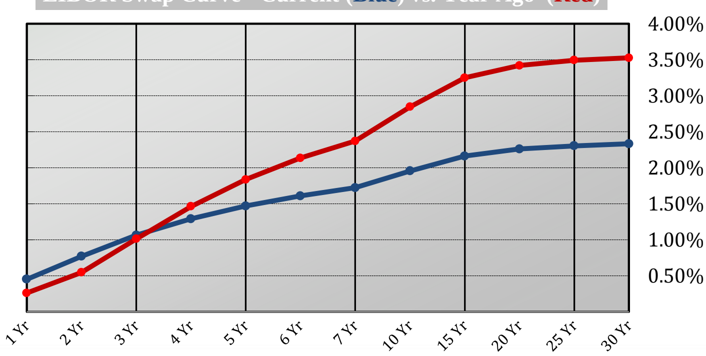
Conventions

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)



CARDEA PARTNERS

Cardea Partners is a firm of seasoned professionals dedicated to bringing transparency of execution and structuring to end-users in the interest rate swap marketplace. We help our clients get great pricing when dealing in interest rate swaps, caps and other options, mandatory hedge requirements, accounting and effectiveness testing demands, ISDA negotiation, and dealing with old transactions. ***Don't hedge without us!***

Independent Derivative Advisory Services

Cleveland, OH (440-892-8000)

San Francisco, CA (925-988-0703)

Miami, FL (954-642-1270)

cardeapartners.com