

Current Rate Environment

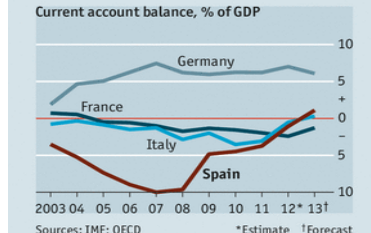
Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.19%	0.20%	(0.01%) ↓
3-Month LIBOR	0.27%	0.28%	(0.01%) ↓
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
US Treasury Yields			
2-year Treasury	0.25%	0.24%	0.01% ↑
5-year Treasury	0.89%	0.83%	0.06% ↑
10-year Treasury	2.01%	1.95%	0.06% ↑
Swaps vs. 3M LIBOR			
2-year	0.46%	0.46%	0.00% ○
5-year	1.12%	1.06%	0.06% ↑
10-year	2.21%	2.16%	0.05% ↑

Fed Speak & Economic News:

- The past two weeks have been undeniably saturated with feverish Fed speak, whether anyone can make sense of it or find a uniform theme remains to be seen. Following the mixed messages from doves and hawks alike during the week ended May 17 came more media appearances by Fed officials as well as the release of the May meeting's minutes. Chairman Bernanke, Chicago's Evans (dove), New York Fed's Dudley (dove) and St. Louis's Bullard (hawk) weighed in early in the week on the status of the recovery and timing of asset purchase unwinds. Bernanke addressed critical points to legitimize the current course of action, later evidenced in May's minutes. What we do know is that policy makers are undecided on whether to set and disclose an end date for asset purchases based on assessments of the labor market and long-term growth. Although Bullard voiced concerns over future inflation, one of the two parts of the Fed's dual mandate, Bernanke focused on the other – compelling labor market gains as the determinant for the exit strategy. He recognized that in spite of recent gains, the unemployment rate remains well above target levels, and that fiscal headwinds are responsible for diminishing the progress made over the course of QE. Still, the minutes suggest that an increasing number of officials are in favor of exiting sooner rather than later as both optimism and financial stability concerns become more prevalent amongst voting and non-voting members. Bottom line, our focus now shifts to June as we await the outcome of the FOMC meeting and other commentary to develop along the way. As we inch closer to that date, May's employment report will be released on June 7th, and will inevitably be a part of the discussion, steering policy makers to confront the hard question: to taper or not to taper? Any indication of tapering will, as it has in the recent past, exert significant upside pressure on Treasury and swap rates.
- Japan's rising government bond yields sparked controversy at Bank of Japan's April meeting, calling into question the effects of its large-scale monetary stimulus. As 10-year yields spiked to the highest level in a year, the meeting's minutes reveal competing focal points: higher prices or a volatile bond market. Although Prime Minister Abe and BOJ Governor Kuroda assert that inflation has begun to show, dissenters fear that inflation expectations will fall short of the 2% target for 2016. With this in mind, Kuroda reminded us of the risk of yields rising given Japan's sensitivity to interest payments from debt levels that are estimated to be 245% of GDP.

Draggs of the South Show Glimmer of Hope

Around the globe, governments find themselves in a similar position as the U.S. as they attempt to ignite the economic engines of their countries while also attending to fiscal restructuring. In the case of Europe, loosened monetary policy has failed to act as an immediate panacea to offset the public and economic backlash to austerity measures. As is the case with Spain and Portugal, the black sheep of the South, which still find themselves in deep recessions, although real GDP measures show promise. Thanks to the EU's fiscal tightening programs, Spain has regained competitiveness in the labor market as car manufacturers like Ford and Volkswagen moved some operations to the Iberian Peninsula. As the EU summit approaches this June, employment figures due this week will lay the groundwork for talks regarding further loosening in the form of asset purchases or a negative interest rate policy in order to ensure price stability.



Source of Chart Data: The Economist Source of Financial Data: Bloomberg

U.S. Economic Data

- Domestic economic activity declined further to -0.53 from -0.23 during April according to the Chicago Fed National Activity Index, showing a below-growth trend for eleven of the past fourteen months.
- Existing home sales, while still positive, fell short of estimates of 1.4% growth from the prior month, showing home purchases increasing by a mere 0.6%. In the same regard, March home prices realized a 1.3% rise from February, above estimates of 0.8%.
- Orders for durable goods in April grew well above estimates at 3.3%, and signals a resurgence in business investment for production in the second half of 2013.

Date	Indicator	For	Forecast	Last
28-May	Richmond Fed Manufacturing Index	May	(2.0) A	(6.0)
28-May	Consumer Confidence	May	76.2 A	68.1
28-May	Dallas Fed Manufacturing Activity	May	(10.5) A	(15.6)
30-May	GDP QoQ (Annualized)	1QS	2.5%	2.5%
31-May	Personal Spending	Apr	0.0%	0.2%
31-May	U. of Michigan Confidence	May F	83.7	83.7

Sales Manager	Cleveland, OH					
Matt Milcetic 216-689-3141	David Bowen 216-689-3925	Dusko Djukic 216-689-4224	Anand Gomes 216-689-4932	Bob Kunkle 216-689-3922	Frank Kuriakuz 216-689-4071	Kate Shaughnessy 216-689-4606

Bellevue, WA		Documentation			
John Lee 425-709-4390	Vani Rao 425-709-4362	Ramona Berce 413-567-6758	Tonnette Bufford 425-709-7747	Linda Maraldo 216-689-0516	Marybeth Simon 216-689-0897



The information contained herein has been obtained from sources deemed to be reliable but it is not represented to be accurate, complete or objective. In providing this information, neither KeyBank nor an affiliate of KeyBank is acting as your agent, broker, advisor, or fiduciary, or is offering any tax, accounting, or legal advice regarding these instruments or transactions. This document is not a solicitation for any particular transaction and KeyBank may have current positions or strategies that may be inconsistent with any views expressed herein.