# Interest Rate Market Insight

March 30, 2015

• With another five trading days to reflect on the FOMC's rhetoric on the conditions precedent for raising the Fed funds target rate, and Chair Yellen stating that overtightening risks outweigh those for waiting longer, the rally seems weary. Interest rates stalled and equities fell 2% WoW. The US dollar rally has plateaued momentarily around $1.09 per euro and crude oil settled at $49/barrel after rallying 10% intraweek. Clarity eludes this marketplace, and external factors are vying for relevance amidst the confusion. EU finance ministers have deemed Greece's bailout revisions to be 'piecemeal and vague,' leaving the country with the distinct possibility of running out of money in the next 10 days before anyone meets to save them again mid-April. The yield on three-year Greek paper is now above 21%. Iranian nuclear negotiations are scheduled to expire tomorrow, with the UN Security Council hopeful that an agreement to limit Iran's stockpiling efforts and to not acquire or develop weapon technology can be reached. Odds are against a resolution. Global markets are rallying in trading today after PBOC governor Xiaochuan noted that China's economy had slowed 'too sharply,' leading markets to expect some stimulus near-term.

• Some of the data improved last week, most notably new home sales, which rose above 500k for consecutive months after revisions for the first time in nearly 7 years. Consumer prices in CPI rose 0.2% MoM for both headline and core readings, ending a steady stretch of deflationary readings for the gauge. Existing home sales missed consensus below 4.9MM annualized units, however sales increased 1.2% MoM. FHFA house prices rose 0.3% and are still up 5% YoY. Durable goods orders fell 1.4% MoM and 0.4% excluding transportation, both lower than economist forecasts. Motor vehicles and aircraft sales softened notably in February. The final revision to Q4 2014 GDP failed to tick upwards to consensus and held at 2.2% QoQ annualized growth. While the harsh winter could easily take a bite out of Q1 2015 readings, most prognosticators still feel 3% growth for 2015 is achievable in the US. The price index rose only 0.1% QoQ. Markit's flash PMI for services surprised to the upside above 58, while the manufacturing equivalent rose above 55. Consumer sentiment from UofM rose to 93 from 91.2, but is still well below the eight-year high mark of 98.1 for the January reading. Treasury got limited interest in 5- and 7-year note auctions last week.

• It's Jobs Friday this week and stock markets will be closed for Good Friday, but bond traders will have a chance to respond to the report as they will be trading until noon (early close Thursday too). The consensus projects nearly 250,000 new payrolls for March, which would be the 13th consecutive month over 200k, and the unemployment rate is expected to remain at 5.5%. Hourly earnings will be closely monitored, with expectations at +0.2% MoM. ADP private payrolls should expand by 230k MoM. Personal income and spending are expected to advance 0.3% and 0.2% MoM, respectively, when released this morning, accompanied by a 0.1% MoM change in the core PCE inflation index.

| Index Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 1-month LIBOR | 0.18% | 0.17% | 0.17% | 0.15% |
| 3-month LIBOR | 0.28% | 0.27% | 0.26% | 0.23% |
| 6-month LIBOR | 0.40% | 0.40% | 0.38% | 0.33% |
| 12-month LIBOR | 0.70% | 0.70% | 0.68% | 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 | 0.60% | 0.58% | 0.62% | 0.45% |
| 3-yr Treasury | 0.93% | 0.94% | 1.00% | 0.89% |
| 5-yr Treasury | 1.44% | 1.42% | 1.50% | 1.72% |
| 7-yr Treasury | 1.76% | 1.73% | 1.82% | 2.26% |
| 10-yr Treasury | 1.96% | 1.93% | 1.99% | 2.68% |
| 30-yr Treasury | 2.54% | 2.51% | 2.59% | 3.53% |
| 2s-10s Spread | 1.37% | 1.35% | 1.37% | 2.23% |

| Taxable Swap Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 2-yr LIBOR Swap | Call | 0.82% | 0.85% | 0.55% |
| 3-yr LIBOR Swap | Call | 1.13% | 1.19% | 0.99% |
| 5-yr LIBOR Swap | Call | 1.53% | 1.60% | 1.75% |
| 7-yr LIBOR Swap | Call | 1.76% | 1.85% | 2.26% |
| 10-yr LIBOR Swap | Call | 1.97% | 2.06% | 2.72% |

| Tax-Exempt Swap Rates | Last | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 2-yr SIFMA Swap | Call | 0.44% | 0.43% | 0.33% |
| 3-yr SIFMA Swap | Call | 0.69% | 0.70% | 0.63% |
| 5-yr SIFMA Swap | Call | 1.10% | 1.14% | 1.31% |
| 7-yr SIFMA Swap | Call | 1.36% | 1.43% | 1.82% |
| 10-yr SIFMA Swap | Call | 1.61% | 1.68% | 2.30% |

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

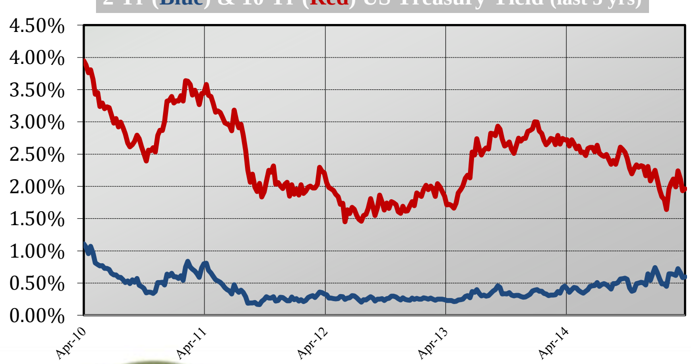
| Agency Rate Caps (in bps) | LIBOR = 3% | LIBOR = 4% | LIBOR = 5% | LIBOR = 6% |
|---|---|---|---|---|
| 3-yr LIBOR Cap | 30 | 16 | 9 | 11 |
| 4-yr LIBOR Cap | 73 | 38 | 22 | 28 |
| 5-yr LIBOR Cap | 135 | 69 | 39 | 49 |
| 7-yr LIBOR Cap | 283 | 188 | 94 | 107 |

| Fwd Implied 3mL Rate | Last |
|---|---|
| Dec. 15 | 0.67% |
| Dec. 16 | 1.45% |
| Dec. 17 | 1.96% |
| Dec. 18 | 2.28% |

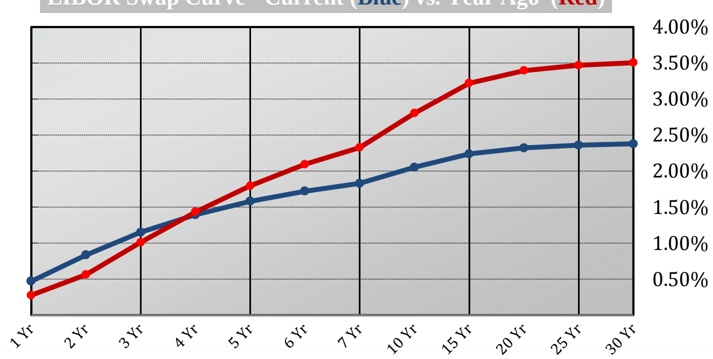
**Conventions**

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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