Interest Rate Market Insight

April 21, 2014

• Earnings beats, meandering expectations, and a little juice from the Fed Chair allowed risk capital to range higher in holiday-shortened trading last week, leaving domestic equities some 3% higher and rocketing the belly of the yield curve up by 15+ bps. The S&P 500 now rests just 1% off its all-time highs, the 5-year swap rate is only 4 bps from a 7-month high, and 3-month LIBOR reset at an all-time low of 0.22585% on Thursday in London. The most impressive data report of the week was the first, as retail sales of 1.1% MoM and 0.7% MoM ex autos both bested consensus by four-tenths, causing many to truly believe the weather-inflicted Q1 pain may have not only been genuine, but that it may have now passed as spring scampers forward. Apart from auto strength that kicked in during February, housing related goods and materials showed strong sales, leaving many to hope that a strong residential season could push GDP towards the coveted 3% level. Chair Yellen of the Federal Reserve continued to correct her target rate mistake from March 19th by reiterating that employment and inflation remain too low for her taste at the Economic Club of New York. Even though the homebuilder index missed consensus and housing starts weren't as positive as economists had hoped, strength in the numbers moved from multifamily to single family more than expected. Business inventories for February rose 0.4%, leaving the ratio at 1.31 times sales, a touch higher than prior looks due to weather, despite a 0.8% MoM rise for business sales. While Empire State manufacturing growth softened to barely positive levels, the Philly Fed survey showed business activity jump in that region towards levels seen last summer (16.6), and industrial production overall rose 0.7% MoM with capacity utilization above 79%. TIC data showed February was a time to buy for net foreign Treasury debt purchasers, as $86 billion of paper was purchased MoM, with all other asset classes roughly flat in the period. Consumer prices rose 0.2% MoM for headline and core readings, coupling with PPI levels that seem to be bouncing off their lows to potentially stir inflation hawks from a prolonged nesting. Jobless claims stayed promisingly low WoW at 304k net new.

• Choppiness could continue along with spring breaks this week, although futures point to the flat line in early trading this morning. Housing data will be monitored this week, namely new and existing home sales for March, which should total roughly 5MM units annualized. Leading indicators should show a 0.7% MoM jump when released this morning, and the Thursday release of durable goods orders should indicate a 2% rise including transportation and a respectable 0.9% MoM without aircraft and motor vehicle components. Jobless claims are expected to tick up slightly to 313k for the week, but PMI manufacturing and services flash indices should both clear pro-growth readings of 56.

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%	0.32%	0.33%	0.43%
12-month LIBOR	0.55%	0.55%	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	0.07%	0.06%	0.23%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.40%	0.36%	0.35%	0.23%
3-yr Treasury	0.91%	0.80%	0.75%	0.34%
5-yr Treasury	1.74%	1.58%	1.55%	0.70%
7-yr Treasury	2.30%	2.16%	2.15%	1.11%
10-yr Treasury	2.72%	2.63%	2.67%	1.69%
30-yr Treasury	3.52%	3.48%	3.61%	2.86%
2s-10s Spread	2.33%	2.27%	2.32%	1.46%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.48%	0.47%	0.36%
3-yr LIBOR Swap	Call	0.88%	0.84%	0.46%
5-yr LIBOR Swap	Call	1.64%	1.60%	0.84%
7-yr LIBOR Swap	Call	2.18%	2.18%	1.28%
10-yr LIBOR Swap	Call	2.66%	2.71%	1.80%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.29%	0.28%	0.27%
3-yr SIFMA Swap	Call	0.57%	0.54%	0.35%
5-yr SIFMA Swap	Call	1.23%	1.20%	0.66%
7-yr SIFMA Swap	Call	1.74%	1.77%	1.05%
10-yr SIFMA Swap	Call	2.24%	2.32%	1.51%

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

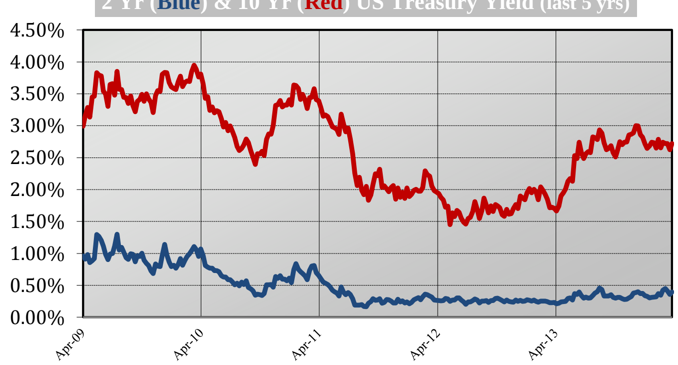
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	25	18
5-yr LIBOR Cap	128	80
7-yr LIBOR Cap	295	189
10-yr LIBOR Cap	576	389

Fwd Implied 3mL Rate	Last
Dec. 14	0.29%
Dec. 15	1.11%
Dec. 16	2.30%
Dec. 17	3.13%

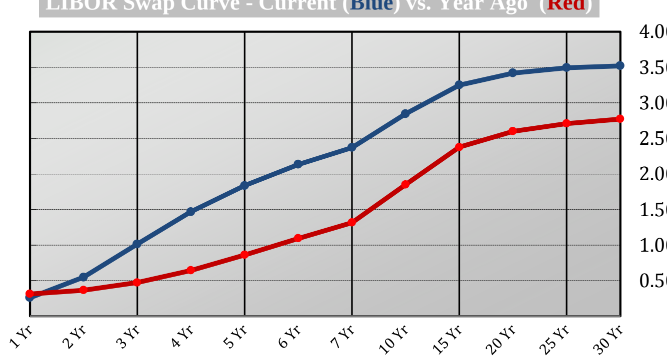
Conventions

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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