- The overt admission that the US economic recovery is dilapidating in the Federal Reserve policy statement last week sent markets roiling, with equities off marketedly (-4%) and the yeld curve flattening as the long end shed basis points with abandon. The FOMC also confirmed that they will keep the size of their bond portfolio constant by reinvesting maturing mortgage principal into "longer-term Treasury securities." This reference drove rampant buying in the long end that continues even this morning, as the 30-year Treasury yield approaches 3.75% and the 10-year yield nears levels from the dark days of December 2008. Hoenig again dissented on the decision to keep the "exceptionally low levels of the federal funds rate for an extended period" language and the decision to continue debt purchases, even as his footing grows precariously more suspect in light of recent weak domestic economic data. The fortunate aspect of the credit market contraction is that the government debt issuances continue to get cheaper to service even as they become more robust. The fact that yields fell so precipitously in a week when new 10- and 30-year Treasurys were auctioned shows the market's voracious appetite for safety. Consumer inflation (CPI) showed a pickup due to energy prices, and retail sales were softer than expected despite decent auto and gasoline sales. The back-to-school season will no doubt highlight any new trend in consumer spending habits as the domestic savings rate approaches 7%, a level nearly four times as much as the 2007 average.
- The data this week returns to manufacturing for the most part, which are likely to be better than June but moderate as capital spending contracts in light of continued payroll limitations and forecasting uncertainty. The Industrial Production report will be monitored to see if the uptrend in capacity utilization continues, and the Leading Indicators report is expected to tick positive by 0.1% after June's -0.2% downdraft, which would be a sign to ease off the economic bloodletting as we move towards the autumn season and mid-term elections. The Philadelphia Fed Survey of general business conditions is expected to rebound slightly even though August is trending weaker. The week also brings the continued global response to the new, muted US growth forecasts and likely more rumblings about deflation. China has moved into the #2 slot in economic size as Japan slides to #3, with the United States' top spot a virtual certainty for them in the coming years based on population and living standard explosions. Friday, the Treasury will announce its short term refundings for next week and the size of its short end auctions of 2-, 5-, and 7-year notes as well.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.27%	0.29%	0.34%	0.27%
3-mo LIBOR	0.37%	0.41%	0.53%	0.43%
6-mo LIBOR	0.59%	0.63%	0.73%	0.83%
12-mo LIBOR	0.97%	1.00%	1.15%	1.39%
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	NA	0.25%	0.26%	0.43%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.53%	0.51%	0.67%	1.05%
3-yr Treasury	0.81%	0.75%	1.10%	1.61%
5-yr Treasury	1.45%	1.51%	1.90%	2.51%
7-yr Treasury	2.06%	2.20%	2.57%	3.18%
10-yr Treasury	2.67%	2.82%	3.12%	3.57%
30-yr Treasury	3.86%	4.00%	4.11%	4.43%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.63%	0.60%	0.81%	1.31%
3-yr LIBOR	0.95%	0.93%	1.23%	1.94%
5-yr LIBOR	1.58%	1.61%	2.02%	2.75%
7-yr LIBOR	2.08%	2.19%	2.56%	3.25%
10-yr LIBOR	2.55%	2.72%	3.04%	3.67%

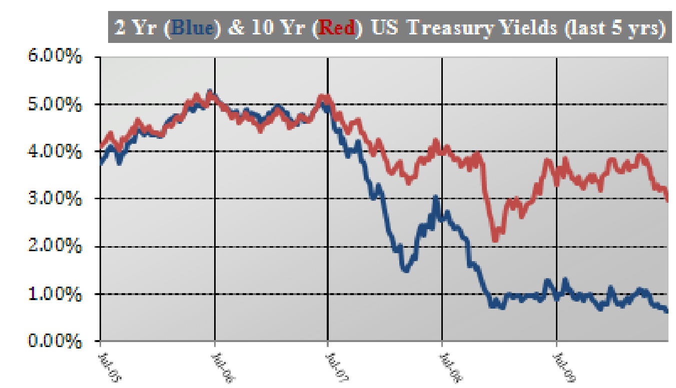
Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.64%	0.59%	0.79%	1.17%
3-yr SIFMA	0.90%	0.86%	1.14%	1.64%
5-yr SIFMA	1.44%	1.43%	1.83%	2.25%
7-yr SIFMA	1.87%	1.93%	2.32%	2.64%
10-yr SIFMA	2.30%	2.40%	2.76%	2.97%

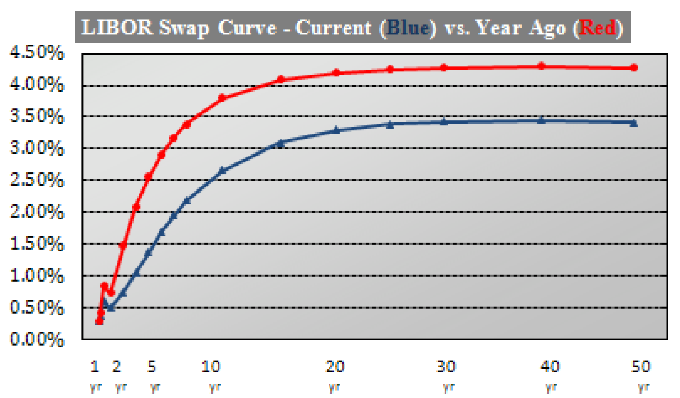
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	29	20
5-yr LIBOR Cap	106	72
7-yr LIBOR Cap	241	164
10-yr LIBOR Cap	506	354

Fwd Implied 3mL Rate	Last
Dec. 10	0.47%
Dec. 11	0.94%
Dec. 12	1.67%
Dec. 13	2.39%

Conventions

LIBOR swaps use 1-month LIBOR, monthly payments, act/360 day count. SIFMA swaps reset weekly and pay monthly, act/act day count. All else equal, amortizing swaps will have lower rates. For %of LIBOR swaps, multiply the %used by the taxable swap rate.





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CARDEA PARTNERS

Warm regards,

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