

The week that was proved prosperous again for trading into riskier assets as the Treasury-buying frontrunners stepped back from the fray. Equities and commodities rose on expectations for strong earnings in this Q3 reporting season. The bond market sloughed in its four-day trading week as the yield curve rose and steepened, with the 30-year Treasury nearly back to 4% after its auction. Retail sales rose 0.6% MoM, beating expectations and matching ex-auto forecasted growth. Core inflation from CPI and PPI remained barely above the flat line, sparking another round of deflation speculation as the Federal Reserve admitted in the FOMC minutes from September 21 that inflation is below their preferred range. The meeting in two weeks has turned into a fulcrum on quantitative easing, so strong preceding data hurts the chances of more Treasury purchases and bad news does the converse, meaning the market is likely to move sideways based on the present news opposing the future result. The Empire State Manufacturing survey was strong on Friday morning, and business inventories also grew over the month. Chairman Bernanke's speech did little to tilt the balance on Fed policy prior to the November 2nd meeting, but he mentioned that the FOMC could keep the Fed funds target 'low for longer than markets expect' if the news and data remain weak. The greatest uncertainty to come lies in the handling of foreclosures, as most major banks admit to mishandling of documentation and rushing of procedural measures, some of which will lead to title issues in the coming months. The resulting moratorium on foreclosures will likely clog the pipeline for home purchases.

The week ahead is somewhat light on data until Thursday (industrial production, TIC data, housing market index and starts), when Leading Indicators and the Philly Fed Survey will be released along with Jobless Claims. Leading indicators are expected to remain positive as the recovery remains on the upswing, as the interest rate component cancels out weakness in job data. The focus of the market will again turn to the Federal Reserve this week with speeches from Lockhart, Kocherlakota, Evans, Fisher, Lacker, Plosser, Bullard, and Hoenig, along with the release of the Fed's Beige Book on Wednesday. The monthly report of Federal Reserve Districts is an anecdotal pre-cursor to each FOMC meeting, and is expected to remain constructive on the local economies apart from job growth. Short term refundings for Treasury bills shorter than a year in term will be placed on Monday and Tuesday.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.26%	0.26%	0.26%	0.25%
3-mo LIBOR	0.29%	0.29%	0.29%	0.28%
6-mo LIBOR	0.45%	0.46%	0.47%	0.59%
12-mo LIBOR	0.77%	0.77%	0.80%	1.25%
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	0.27%	0.25%	0.29%	0.26%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.46%	0.43%	0.59%	1.25%
3-yr LIBOR	0.71%	0.66%	0.89%	1.84%
5-yr LIBOR	1.35%	1.28%	1.56%	2.61%
7-yr LIBOR	1.94%	1.85%	2.10%	3.08%
10-yr LIBOR	2.53%	2.40%	2.61%	3.47%

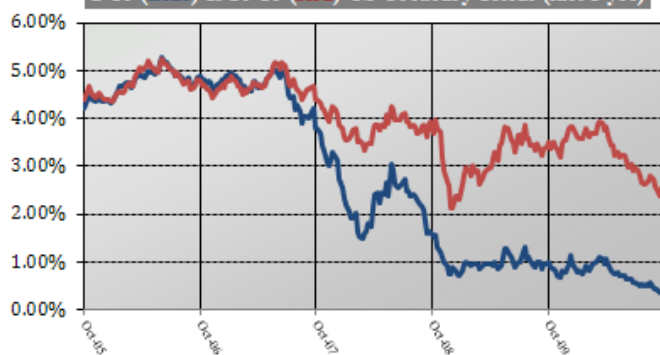
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	22	17
5-yr LIBOR Cap	86	60
7-yr LIBOR Cap	232	158
10-yr LIBOR Cap	533	366

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.36%	0.35%	0.48%	0.96%
3-yr Treasury	0.59%	0.52%	0.77%	1.50%
5-yr Treasury	1.19%	1.11%	1.45%	2.35%
7-yr Treasury	1.87%	1.74%	2.12%	2.99%
10-yr Treasury	2.56%	2.39%	2.72%	3.41%
30-yr Treasury	3.98%	3.75%	3.87%	4.25%

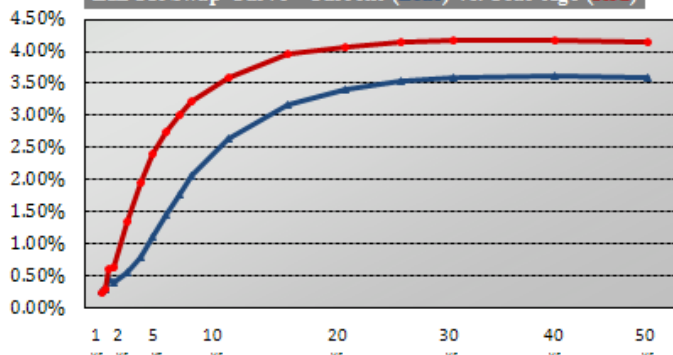
Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.51%	0.48%	0.62%	1.19%
3-yr SIFMA	0.71%	0.68%	0.87%	1.65%
5-yr SIFMA	1.26%	1.20%	1.44%	2.23%
7-yr SIFMA	1.77%	1.68%	1.90%	2.60%
10-yr SIFMA	2.27%	2.15%	2.35%	2.92%

Fwd Implied 3mL Rate	Last	Conventions
Dec. 10	0.35%	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.
Dec. 11	0.60%	
Dec. 12	1.14%	
Dec. 13	1.90%	

2 Yr (Blue) & 10 Yr (Red) US Treasury Yields (last 5 yrs)



LIBOR Swap Curve - Current (Blue) vs. Year Ago (Red)



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Warm regards,

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