Weekly Market Insight

August 30, 2010

• The continued front-running into Treasuries following the FOMC meeting two weeks ago subsided abruptly on Friday, with massive selling across the entire curve with emphasis at the long end, with the 10-yr yield rocketing some 17 basis points higher to reclaim all the ground lost during the week. The move can be tied to a slightly stronger than expected but below-trend GDP revision (only 1.6%) and the remarks of Fed Chairman Bernanke at the Jackson Hole Symposium, in which he remained optimistic despite the struggling data trend in the economy. Markets were generally disappointed that he failed to elucidate the details of the ultimate plan for Treasury purchases and quantitative easing. His summarizing point was expectedly supportive: "The Committee will certainly use its tools as needed to maintain price stability--avoiding excessive inflation or further disinflation--and to promote the continuation of the economic recovery." Obviously easier said than done, but equities took the opportunity to rally with the bond market outflows. The week's housing market data was terrible, with existing home sales falling some 27% to mid-1990's total annualized sales levels and new home sales fell to a record low volume on a 12% decline. Existing home inventories grew to more than 12 months annualized. GSE home price data from FHFA showed an annualized decline of 1.7% in the period. July Durable Goods orders rose 0.3%, an improvement from the contraction in June, but below the 2.5% expectation. As the medium and long term Treasury auctions preceded the big news on Friday, they were all well received with a weighted average bid-to-cover ratio of 2.97.

• Following the disappointment of the housing data from last week comes a week full of employment data, and most expect similar travails to surface in data for the American worker. Personal Income and Spending on Monday is followed by Consumer Confidence and the FOMC Minutes on Tuesday. The WSJ had an interesting article about the broad disparity of opinion at the most recent Fed meeting over the QE portfolio, "Fed Split on Move to Bolster Sluggish Economy," that is well worth the read. Leading up to Friday's nonfarm payrolls report (consensus -80k jobs and 9.6% unemployment rate), we get competing reports from Challenger, ADP, and Monster. Other economic data for the week include the Chicago Purchasing Managers Index, ISM Manufacturing and Non-Manufacturing Indices, and mortgage applications from the MBA. Fed Presidents Fisher and Lockhart will speak during the week.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.26%	0.26%	0.32%	0.26%
3-mo LIBOR	0.30%	0.33%	0.48%	0.35%
6-mo LIBOR	0.50%	0.55%	0.69%	0.76%
12-mo LIBOR	0.86%	0.91%	1.07%	1.33%
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	0.30%	0.30%	0.28%	0.39%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.55%	0.49%	0.64%	1.02%
3-yr Treasury	0.82%	0.77%	1.01%	1.54%
5-yr Treasury	1.49%	1.46%	1.79%	2.45%
7-yr Treasury	2.09%	2.06%	2.48%	3.09%
10-yr Treasury	2.65%	2.61%	3.05%	3.45%
30-yr Treasury	3.69%	3.66%	4.08%	4.20%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.64%	0.59%	0.75%	1.27%
3-yr LIBOR	0.97%	0.91%	1.13%	1.90%
5-yr LIBOR	1.62%	1.58%	1.88%	2.70%
7-yr LIBOR	2.12%	2.08%	2.44%	3.17%
10-yr LIBOR	2.57%	2.53%	2.93%	3.56%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.67%	0.61%	0.71%	1.20%
3-yr SIFMA	0.95%	0.89%	1.03%	1.69%
5-yr SIFMA	1.51%	1.45%	1.60%	2.28%
7-yr SIFMA	1.95%	1.89%	2.19%	2.63%
10-yr SIFMA	2.35%	2.30%	2.58%	2.94%

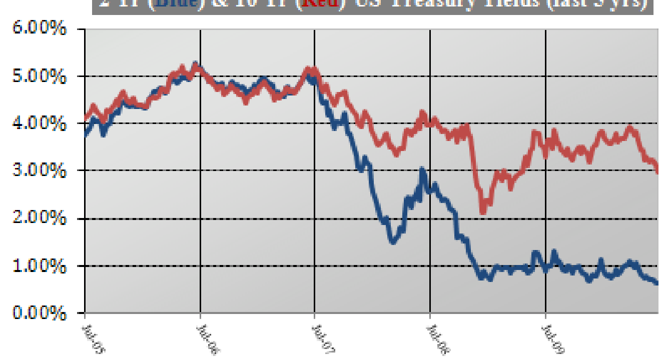
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	28	20
5-yr LIBOR Cap	100	68
7-yr LIBOR Cap	240	161
10-yr LIBOR Cap	505	351

Fwd Implied 3mL Rate	Last
Dec. 10	0.44%
Dec. 11	0.93%
Dec. 12	1.69%
Dec. 13	2.41%

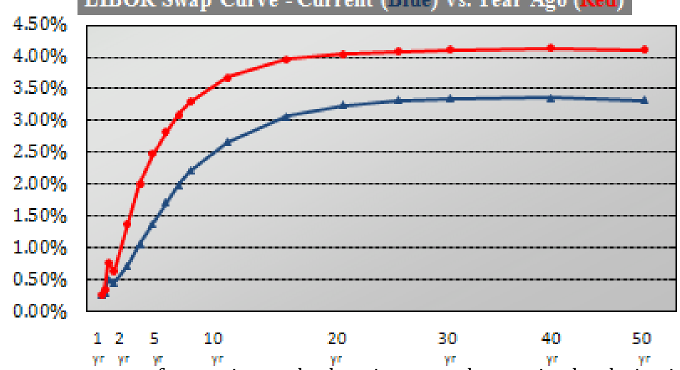
Conventions

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.

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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