• A last gasp for the enjoyment of summer led to a middling week of market action, as equities and rates slipped lower in a continuation of the trend amid a pronouncement of the flattening effect of the Federal Reserve's last meeting. The 2-year Treasury continues to break to new record low yields, finding trades below 0.46% intraday Friday, but its relative move pales in comparison to the 20 bp drop in the 30-year yield. The fact remains, however, that the flattening comes on the heels of record steepening, and the current 2 yr -10 yr spread of 2.11% is still roughly double the historical average and implicit of the strong likelihood of continued economic recovery. The immediate weakness in the housing data (builder index drop and weaker than expected housing starts) and the unexpected bump in jobless claims (20k above expectations to 500k) would certainly be opposing indicators that the mixed manufacturing data failed to dilute. Leading Indicators came in as expected at 0.1%--a miss would have added fuel to the trading fire to be sure. The excitement this week will lie around the annual Federal Reserve Symposium at Jackson Hole, hosted by Kansas City Fed President Thomas Hoenig, the lone dissenter for the past five FOMC meetings. This meeting brings central bankers, academics, and market players from around the globe together to discuss the state of the global economy, with a speech from Chairman Bernanke, among others. Market players will listen keenly for details on quantitative easing moves to come in light of the recent economic slump.

• Home is where the heart is, and housing data exposes the pulse of the US economy deafeningly. We get existing and new home sales on Tuesday and Wednesday mornings, respectively, and both reports are expected to show a marked decline in demand and the difficulty in the clearing of inventory. With so much consumer spending driven by the wealth effect of the housing market, look for the consumer sentiment report on Friday to disappoint, despite expectations from economists on the rosier side. Friday also brings the first revision to the Q2 GDP advance growth rate of 2.4%, and the expectation is for a significant contraction in growth to 1.3% as the fear of uncertainty and market declines in thin trading likely affected consumption behavior. Durable goods orders are expected to rebound from a -1% drop in June, with a wide-ranged consensus for this manufacturing proxy centered around 2.5% expansion in orders for hard goods. Auctions of 2-, 5-, and 7-year notes for $102B face are scattered throughout the week, and Monday morning brings a $7B auction of 30-year TIPS.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.26%	0.27%	0.33%	0.27%
3-mo LIBOR	0.33%	0.37%	0.51%	0.39%
6-mo LIBOR	0.55%	0.59%	0.71%	0.80%
12-mo LIBOR	0.91%	0.97%	1.10%	1.35%
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	0.27%	0.29%	0.42%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.49%	0.53%	0.58%	1.09%
3-yr Treasury	0.77%	0.81%	0.93%	1.65%
5-yr Treasury	1.46%	1.45%	1.69%	2.57%
7-yr Treasury	2.06%	2.06%	2.37%	3.21%
10-yr Treasury	2.61%	2.67%	2.95%	3.57%
30-yr Treasury	3.66%	3.86%	3.98%	4.38%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.59%	0.63%	0.68%	1.40%
3-yr LIBOR	0.91%	0.95%	1.05%	2.04%
5-yr LIBOR	1.58%	1.58%	1.80%	2.86%
7-yr LIBOR	2.08%	2.08%	2.36%	3.32%
10-yr LIBOR	2.53%	2.55%	2.86%	3.69%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.61%	0.64%	0.67%	1.32%
3-yr SIFMA	0.89%	0.90%	0.99%	1.83%
5-yr SIFMA	1.45%	1.44%	1.65%	2.44%
7-yr SIFMA	1.89%	1.87%	2.16%	2.80%
10-yr SIFMA	2.30%	2.30%	2.64%	3.11%

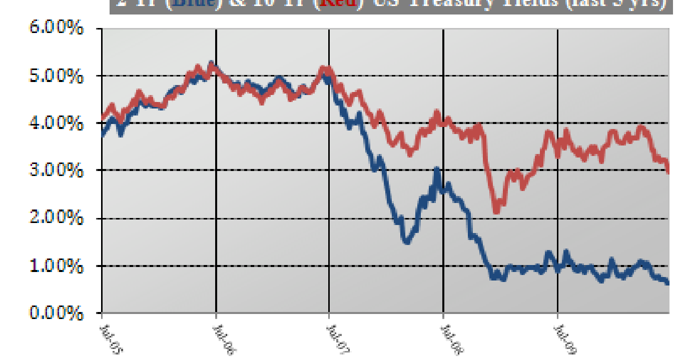
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	29	20
5-yr LIBOR Cap	101	68
7-yr LIBOR Cap	242	163
10-yr LIBOR Cap	509	354

Fwd Implied 3mL Rate	Last
Dec. 10	0.39%
Dec. 11	0.88%
Dec. 12	1.63%
Dec. 13	2.38%

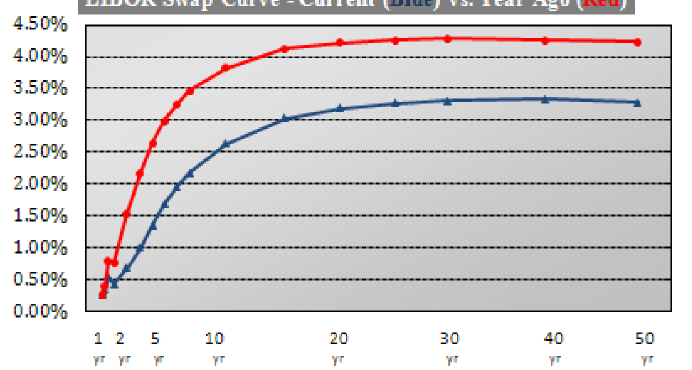
Conventions

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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