WEEKLY MARKET INSIGHT

JUNE 7, 2010

- The fear in markets persists as we enter the second week of June. Global equity markets sold off hard Friday as the robust job growth expectation of 500,000+ in the nonfarm payrolls report met the reality of only 431,000 jobs added, leaving participants more than a bit dissatisfied. Private sector expansion was particularly soft. Hungary joined the fray of European debt-stricken countries to worry about, with one rogue finance minister signalling that the situation could be like Greece. Belgian spreads have begun to express renewed debt concerns in that country as well. The Euro dropped below the 1.19 level against the dollar, despite some backtracking in Hungary. Japan fell nearly 4%, its biggest drop since March of 2009. Of greater concern is the grab for liquidity, as the ECB's overnight deposit window got record use on Friday of $400+ billion from concerned Euro banks, and China's seven-day repo facility has increased in yield from 1.8% to 3.2% in the last two weeks. It will be difficult for bond markets to get comfortable with 'as-is' credit quality until these liquidity shifts normalize and dissipate. In the meantime, in the vacuous empty space and time without corporate earnings releases or notable data for a couple of weeks, look for the volatility to continue and watch for any shock to traditionally stable markets as a signal of contagion. The last resort remains the US Treasury market, despite its recent and continuing proliferation.
- The economic data calendar is light for the coming week, with only retail sales and consumer credit reports to monitor. The most interesting news will come from governments, with the Fed's Beige book release providing an economic summary of the 12 Fed districts and Chairman Bernanke's speech on Wednesday in Richmond. Along with US Treasury short term refundings are auctions of 3-,10-, and 30-year paper, where buying interest tends to correlate strongly with fear or the lack of desirable dollar-based investment opportunities elsewhere. As Europe continues to experience this crisis, we look for ECB liquidity controls and leading policy from Germany and France to provide a framework for stabilization moving forward.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.35%	0.35%	0.28%	0.32%
3-mo LIBOR	0.54%	0.54%	0.35%	0.63%
6-mo LIBOR	0.75%	0.75%	0.55%	1.18%
12-mo LIBOR	1.20%	1.20%	1.04%	1.55%
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	0.26%	0.29%	0.25%	0.34%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.73%	0.77%	0.94%	0.96%
3-yr Treasury	1.16%	1.24%	1.47%	1.53%
5-yr Treasury	1.98%	2.09%	2.38%	2.59%
7-yr Treasury	2.66%	2.75%	3.06%	3.33%
10-yr Treasury	3.20%	3.29%	3.59%	3.71%
30-yr Treasury	4.13%	4.21%	4.41%	4.58%

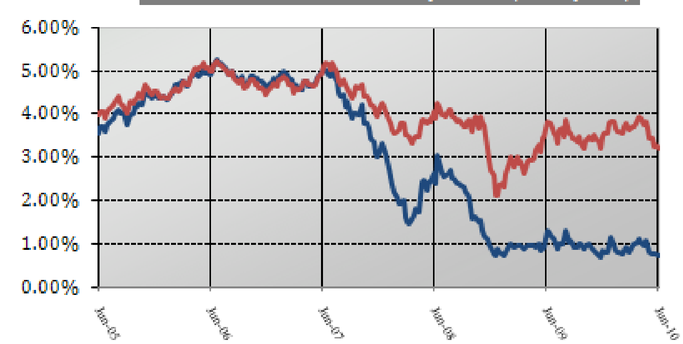
Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.99%	1.06%	1.11%	1.27%
3-yr LIBOR	1.43%	1.49%	1.63%	1.95%
5-yr LIBOR	2.20%	2.29%	2.47%	2.94%
7-yr LIBOR	2.73%	2.80%	3.01%	3.49%
10-yr LIBOR	3.18%	3.24%	3.46%	3.91%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.93%	0.98%	1.01%	1.17%
3-yr SIFMA	1.28%	1.33%	1.37%	1.68%
5-yr SIFMA	1.93%	1.99%	2.04%	2.51%
7-yr SIFMA	2.38%	2.42%	2.47%	2.98%
10-yr SIFMA	2.79%	2.83%	2.87%	3.38%

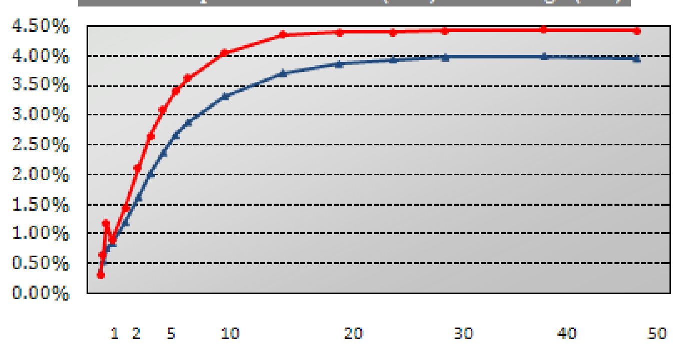
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	50	33
5-yr LIBOR Cap	199	134
7-yr LIBOR Cap	421	291
10-yr LIBOR Cap	777	554

Fwd Implied 3mL Rate	Last	Conventions
Dec. 10	0.95%	LIBOR swaps use 1-month LIBOR mid market, 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	1.69%	
Dec. 12	2.62%	
Dec. 13	3.44%	

2 Year & 10 Year US Treasury Yields (last 5 years)



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



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CARDEA PARTNERS

Warm regards,

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