Weekly Market Insight

October 4, 2010

- A positive month for risk ended with seemingly positive data for GDP and the consumer, with headline Q2 growth revised up 0.1% to 1.7% on a bump in inventories and moderately stronger disposable income and spending levels from individuals. These positives were tempered by weak consumer confidence and sentiment indicators, which are likely lagging reality slightly, and a modest slowdown in the ISM Manufacturing survey. We now have the entire month of October to figure out how much the Federal Reserve will buy in Treasuries for a second round of quantitative easing (flooding the market with dollars and supporting Treasury prices). The official program is likely to be outlined in the November FOMC statement, unless markets continue to rally on positive data and earnings. Primary dealer estimates are anywhere from zero to more than $1 trillion over the course of the next 12-18 months, with the impact to the yield curve being on the order of 50 bps, with some of the benefit already visible from front-running the expected purchases by market participants. When FOMC Voting Member William Dudley addressed SABEW in New York on Friday, his primary message was constructive in the face of the economy's current travails: "both the current levels of unemployment and inflation and the timeframe over which they are likely to return to levels consistent with our mandate **are unacceptable**...We have tools that can provide additional stimulus at costs that do not appear to be prohibitive, thus I conclude that further action is likely to be warranted unless the economic outlook evolves in a way that makes me more confident." $100B in Treasury auctions cleared with strong demand and yields fell on the week.
- The first week of the month brings paychecks to the masses, and stats on how many people are receiving them to the markets. As such, we have only factory orders and ISM's services index to monitor until Wednesday, when we get the precursors to NFP in the Challenger and ADP employment reports. Thursday follows with releases on jobless claims, which fell 16k last week bringing the four-week average to -453k, and the Monster Employment Index which highlights metrics for online job recruitment. Friday's nonfarm payrolls report carries the majority of the importance for markets, with a consensus suspicion of flat to slightly negative job creation for the month of September, an uptick in the unemployment rate to 9.7%, and average hourly earnings increasing by 0.1% MoM. Treasury has short term refundings this week along with size announcements on 3-, 10-, and 30-yr debt auctions next week. They also sold another 5% of their stake in Citigroup last week for roughly $1B in profit and confirmed that the process for beginning AIG divestitures will begin in the coming weeks.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.26%	0.26%	0.26%	0.24%
3-mo LIBOR	0.29%	0.29%	0.30%	0.28%
6-mo LIBOR	0.46%	0.46%	0.50%	0.60%
12-mo LIBOR	0.78%	0.78%	0.84%	1.21%
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	Call	0.30%	0.25%	0.34%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.42%	0.44%	0.51%	0.87%
3-yr Treasury	0.62%	0.69%	0.74%	1.35%
5-yr Treasury	1.26%	1.35%	1.40%	2.21%
7-yr Treasury	1.89%	1.99%	2.02%	2.82%
10-yr Treasury	2.51%	2.61%	2.58%	3.22%
30-yr Treasury	3.72%	3.80%	3.65%	4.00%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.52%	0.54%	0.60%	1.15%
3-yr LIBOR	0.79%	0.83%	0.89%	1.73%
5-yr LIBOR	1.42%	1.48%	1.52%	2.47%
7-yr LIBOR	1.97%	2.03%	2.03%	2.91%
10-yr LIBOR	2.48%	2.54%	2.49%	3.27%

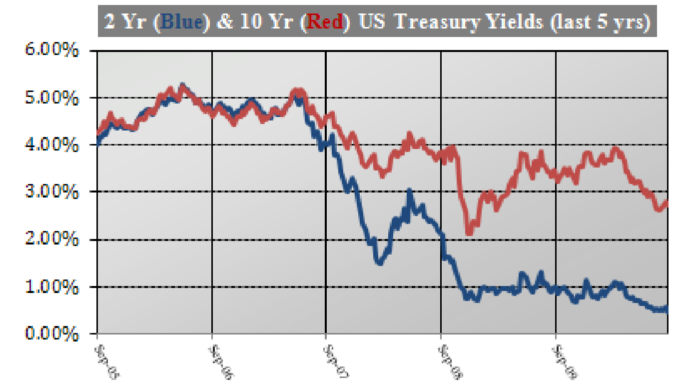
Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.57%	0.59%	0.63%	1.11%
3-yr SIFMA	0.79%	0.83%	0.88%	1.56%
5-yr SIFMA	1.33%	1.38%	1.42%	2.13%
7-yr SIFMA	1.79%	1.86%	1.85%	2.49%
10-yr SIFMA	2.23%	2.31%	2.27%	2.81%

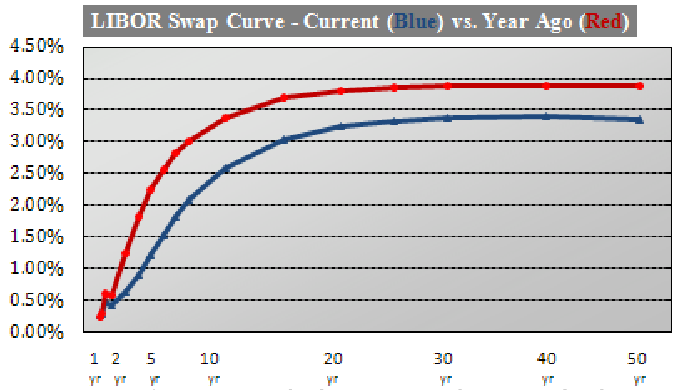
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	27	20
5-yr LIBOR Cap	103	73
7-yr LIBOR Cap	254	176
10-yr LIBOR Cap	537	375

Fwd Implied 3mL Rate	Last
Dec. 10	0.37%
Dec. 11	0.72%
Dec. 12	1.33%
Dec. 13	2.07%

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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Warm regards,

Ryan Kozak, Christopher Hunt,
Joseph Momich, and Rex Evans

Derivative and Debt Advisory Services

Cleveland, OH (440-892-8000)

San Francisco, CA (925-988-0703)

Miami, FL (954-642-1270)

cardeapartners.com