Weekly Market Insight

August 9, 2010

• Friday's highly anticipated nonfarm payrolls report yielded an aggregate loss of 131,000 jobs in July, with losses driven by a contraction in the government sector, in part due to Census employee rolloff. Private jobs increase by 71,000 in the period, the gains evenly divided between services and manufacturing but weaker than some had hoped. While both numbers were below expectations, other metrics in the report painted a rosier picture, with gains in the average workweek, wages, and an unchanged unemployment rate of 9.5%. May and June payrolls were revised lower by roughly 100k as well. Markets tend to fade the immediate reaction from this report, and Friday was no outlier as major early declines in equities and bond yields lessened as market close approached. The US dollar and commodities were bigger losers, apart from the gains in currency-proxy precious metals. Earlier in the week, ISM's manufacturing and service indices both beat expectations but affirmed a continued growth slowdown from springtime highs. Pending home sales plummeted nearly 20% month over month as realtors noted the inverse effect of the government stimulus that sped up sales in Q1. For the week, the yield curve dropped 5-10 bps and the 2-year Treasury yield remains near its all-time low.

• The $64,000 question this week: does the Federal Reserve deem the Q2 slowdown significant enough to step in with more measures of quantitative easing? The answer may be clearer after Tuesday's FOMC policy announcement, where the target rate will certainly remain unchanged near zero, but they may also continue the wait-and-see routine. The most likely reponses could be to ratchet up purchases of Treasuries or increase interest rates on Fed deposits. The Treasury brings $74 billion in 3-, 10-, and 30-year debt to market this week, a lower auction amount than anticipated. Friday's Consumer Price Index inflation gauge should affirm a trend of declining food and energy prices and could provide more fodder for market pundits who see the United States slipping into a Japanese-style deflationary moment. Others prepare for the onslaught of hyperinflation, or even a combination of the two in succession. Retail sales data comes concurrent with CPI and is expected to show significant auto demand, but could also highlight a decline in end user demand and pricing power.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.29%	0.31%	0.35%	0.28%
3-mo LIBOR	0.41%	0.45%	0.53%	0.46%
6-mo LIBOR	0.63%	0.67%	0.74%	0.91%
12-mo LIBOR	1.00%	1.04%	1.16%	1.51%
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	0.28%	0.25%	0.35%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.51%	0.55%	0.61%	1.30%
3-yr Treasury	0.75%	0.83%	0.97%	1.84%
5-yr Treasury	1.51%	1.60%	1.76%	2.82%
7-yr Treasury	2.20%	2.30%	2.40%	3.48%
10-yr Treasury	2.82%	2.91%	2.93%	3.85%
30-yr Treasury	4.00%	3.99%	3.89%	4.61%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.60%	0.64%	0.82%	1.59%
3-yr LIBOR	0.93%	0.98%	1.19%	2.26%
5-yr LIBOR	1.61%	1.68%	1.91%	3.13%
7-yr LIBOR	2.19%	2.26%	2.44%	3.64%
10-yr LIBOR	2.72%	2.79%	2.90%	4.03%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.59%	0.61%	0.78%	1.44%
3-yr SIFMA	0.86%	0.92%	1.08%	1.93%
5-yr SIFMA	1.43%	1.52%	1.70%	2.58%
7-yr SIFMA	1.93%	2.00%	2.16%	2.97%
10-yr SIFMA	2.40%	2.49%	2.58%	3.29%

Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	29	21
5-yr LIBOR Cap	114	77
7-yr LIBOR Cap	271	176
10-yr LIBOR Cap	579	389

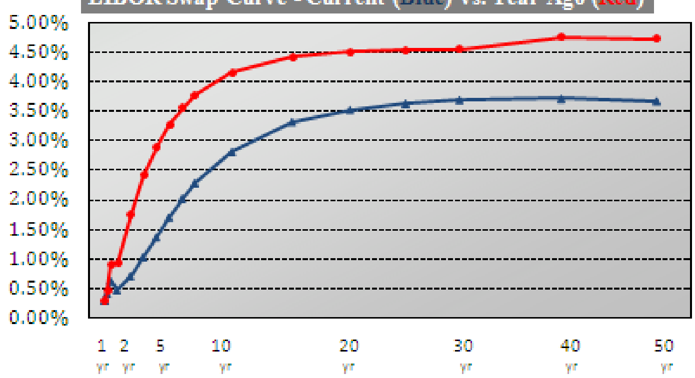
Fwd Implied 3mL Rate	Last
Dec. 10	0.44%
Dec. 11	0.92%
Dec. 12	1.68%
Dec. 13	2.47%

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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