WEEKLY MARKET INSIGHT

JULY 12, 2010

- The market participants who were in the office last week turned decidedly bullish, leading global equities and commodities about 5% higher on the week, and apparently abandoning the concerns over Europe and slowing growth and deficits that forced markets equally lower the week prior. Much of the positive sentiment was drawn from details around the forthcoming EU bank stress test, with leaked performance hurdles that seem tenable for most of the region's financial institutions. The S&P 500 had its best week in a year, in fact, in only four trading days, and the upcoming reporting for Q2 earnings are eagerly awaited in the coming weeks. Government bonds and credit default spreads accordingly fell, with the 10-year Treasury yield moving back above the 3% threshold and looking for direction. Many traders see current rate levels as near term floors, with continued auctions forthcoming (this week to the tune of nearly $70B) that could eventually overwhelm demand in the coming months. $35B in 3-year notes will be sold today, followed by long end of the curve sales tomorrow with 10- and 30-year auctions. The financial reform bill could reach the floor of the Senate this week for a vote--in order to pass without filibuster, two Republican votes are needed in light of the death of Democratic Senator Robert Byrd, with Senators Snowe, Brown, and Collins potentially in play.
- Chairman Bernanke speaks today on the topic of small business credit in Washington. Wednesday brings the minutes from the most recent FOMC meeting, and we shall see how the committee absorbed the weakness in European credit beyond the passing acknowledgement in the policy statement. Apart from earnings, the week will bring a bevy of industrial and manufacturing data, in particular data on business inventories, industrial production, and the Philly Fed and Empire State Manufacturing surveys. The Producer and Consumer Price Indices will be released Thursday and Friday, respectively, the latest reading on the gauges that highlight inflation, which has been non-existent for several years now despite the dramatic swelling of the money supply to ease the global credit crisis. Consumer sentiment is announced Friday and is expected to remain middling.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.34%	0.35%	0.35%	0.29%
3-mo LIBOR	0.53%	0.53%	0.54%	0.51%
6-mo LIBOR	0.73%	0.75%	0.75%	0.97%
12-mo LIBOR	1.14%	1.17%	1.18%	1.46%
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	0.25%	0.29%	0.27%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.64%	0.63%	0.73%	0.90%
3-yr Treasury	1.01%	1.01%	1.22%	1.42%
5-yr Treasury	1.82%	1.82%	2.03%	2.26%
7-yr Treasury	2.48%	2.46%	2.68%	2.94%
10-yr Treasury	3.04%	2.98%	3.24%	3.35%
30-yr Treasury	4.02%	3.94%	4.15%	4.23%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.80%	0.85%	0.94%	1.20%
3-yr LIBOR	1.21%	1.23%	1.40%	1.79%
5-yr LIBOR	1.97%	1.97%	2.19%	2.59%
7-yr LIBOR	2.51%	2.48%	2.74%	3.06%
10-yr LIBOR	2.98%	2.94%	3.20%	3.44%

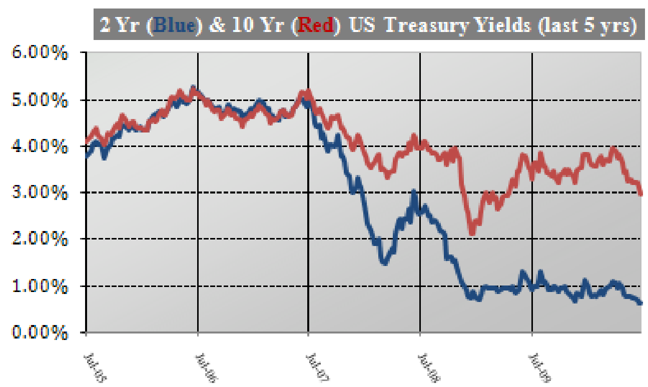
Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.77%	0.81%	0.88%	1.08%
3-yr SIFMA	1.10%	1.12%	1.22%	1.57%
5-yr SIFMA	1.77%	1.75%	1.90%	2.24%
7-yr SIFMA	2.25%	2.20%	2.37%	2.66%
10-yr SIFMA	2.68%	2.63%	2.78%	3.02%

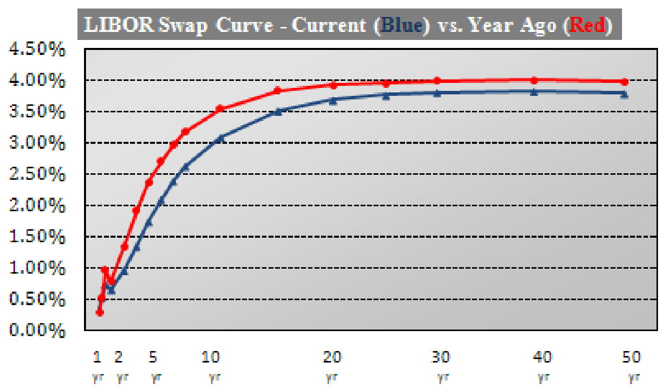
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	42	31
5-yr LIBOR Cap	162	116
7-yr LIBOR Cap	358	246
10-yr LIBOR Cap	689	490

Fwd Implied 3mL Rate	Last
Dec. 10	0.64%
Dec. 11	1.30%
Dec. 12	2.20%
Dec. 13	3.07%

Conventions

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.





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Warm regards,

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