Interest Rate Market Insight

April 13, 2015

• Finally given the opportunity to trade the soft March nonfarm payrolls report last week, most traders voted optimistically, as equities shifted back towards all time highs with the Dow closing above 18,000 and the S&P 500 eclipsing 2,100. Interest rates were sort of shrugging off the news as well until a particularly soft 30-year Treasury auction on Thursday sent a jolt through the back end of the yield curve, which ended about 5 bps higher WoW. After a slight breather, the dollar seems to be strengthening again in early action, and the import/export pricing data bears out the greenback's current dominance and limited inflation. With a probable export slowdown in highly tangible industries, ISM's services index thankfully showed decent strength with a reading of 56.5, and Markit's services PMI echoed the positive sentiment at 59.2. Corporate earnings start coming through in force this week, and many analysts have revised earnings to actually contract overall in 2015, led by slashed expectations in the energy sector and currency impacts. While initial jobless claims and JOLTS were decent, this employment hangover from the March jobs report miss should last several weeks, and a Fed funds move at the June FOMC meeting seems off the table.

• Despite FOMC minutes that showed participants as widely dispersed as June and 2016 for a target rate hike, our best guess remains the September meeting. Another bullish signal was that "the Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run." The wholesale trade report showed a 0.3% build in inventories MoM in February, compared with a 0.2% decline in sales, leaving the stock to sales ratio at its highest level since the depths of the recession in 2009. The February consumer credit report showed expansion of nearly $20 billion in non-revolving credit while credit card spending declined nearly $4 billion, which bodes well for the consumer's long term objectives but hurt retail sales in the process. The 10-year Treasury auction on Wednesday was much better than the long bond's, with many buy and hold accounts snatching up the notes, leaving only 32% of the float to dealers. The 3-year offering was similarly popular and released below the when-issued bid near 0.87%, a rate that is still roughly double the 2012 average.

• Retail sales are released tomorrow morning, and expectations are strong (+1% MoM, +0.6% MoM ex autos and gasoline are consensus). Producer prices look to rise MoM at both the headline and core levels (+0.2% MoM headline, +0.1% MoM ex food and energy, -0.9% YoY). Consumer prices should rise as well, but both still remain well below the Fed's 2% target threshold. Later in the week we are expected to see middling results from Empire State manufacturing and Philly Fed surveys, TIC data for February from Treasury showing the change in long-dated asset holdings, housing starts that are expected to pop above 1MM, and leading indicators, that should show a 0.3% MoM advance.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.18%	0.18%	0.18%	0.15%
3-month LIBOR	0.28%	0.27%	0.27%	0.23%
6-month LIBOR	0.40%	0.40%	0.40%	0.32%
12-month LIBOR	0.70%	0.69%	0.71%	0.55%
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	Call	0.02%	0.02%	0.07%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.56%	0.54%	0.68%	0.35%
3-yr Treasury	0.91%	0.86%	1.07%	0.81%
5-yr Treasury	1.40%	1.35%	1.61%	1.59%
7-yr Treasury	1.73%	1.69%	1.94%	2.18%
10-yr Treasury	1.95%	1.91%	2.13%	2.65%
30-yr Treasury	2.58%	2.53%	2.72%	3.52%
2s-10s Spread	1.39%	1.37%	1.45%	2.30%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.78%	0.92%	0.48%
3-yr LIBOR Swap	Call	1.07%	1.28%	0.89%
5-yr LIBOR Swap	Call	1.48%	1.72%	1.65%
7-yr LIBOR Swap	Call	1.73%	1.97%	2.20%
10-yr LIBOR Swap	Call	1.96%	2.18%	2.69%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.42%	0.47%	0.28%
3-yr SIFMA Swap	Call	0.65%	0.76%	0.58%
5-yr SIFMA Swap	Call	1.06%	1.21%	1.24%
7-yr SIFMA Swap	Call	1.33%	1.49%	1.75%
10-yr SIFMA Swap	Call	1.59%	1.75%	2.25%

All else equal, amortizing swaps and caps will have lower rates and costs, respectively. Please call for specific structure pricing requests.

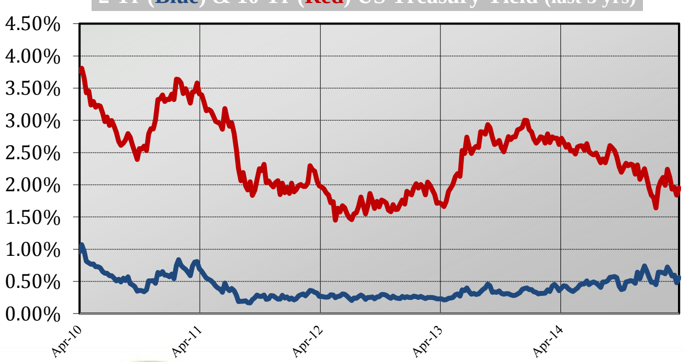
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	27	14	12	10
4-yr LIBOR Cap	67	34	20	26
5-yr LIBOR Cap	125	64	36	46
7-yr LIBOR Cap	267	176	87	99

Fwd Implied 3mL Rate	Last
Dec. 15	0.64%
Dec. 16	1.41%
Dec. 17	1.95%
Dec. 18	2.27%

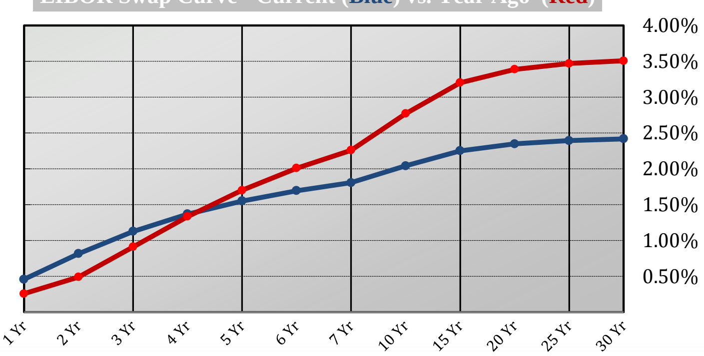
Conventions

Source: Bloomberg. LIBOR swaps use 1-month LIBOR, monthly payments, act/360 for both legs. SIFMA swaps reset weekly and pay monthly, act/act. For %of LIBOR swaps, multiply the %used by the taxable swap rate. No amortization.

2 Yr (Blue) & 10 Yr (Red) US Treasury Yield (last 5 yrs)



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



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