Interest Rate Market Insight

June 8, 2015

• Is the 'Sell in May' crowd focused on the bond market this year? After a week of relatively positive data, the losses for longer-dated bond holders around the world are mounting faster than those for equities, and the US jobs picture seems more important than fears over the EU's potential loss of Greece. Friday's nonfarm payroll report surprised to the upside, buoyed by better than expected wage growth (+0.3% MoM) and revisions to March and April (+32k jobs). BLS reported a gain of 280,000 jobs for May, roughly 25% better than forecasts, and an increase in the labor force participation rate to 62.9% led the overall unemployment rate to rise to 5.5%. Broad domestic equity indices fell less than 1% WoW, but the Treasury yield curve rose from 10-23 from 2 years to 30 years and swap spreads channeled towards the short end. After getting crushed earlier in the week, the US dollar rallied somewhat after the news on Friday. The release is likely too little, too late as far as impacting the policy decision at next week's two-day FOMC meeting for the Federal Reserve, which features the quarterly Chair press conference and economic forecasts this time around. As many have argued since last year, September remains the likeliest meeting for hiking.

• The G7 nations' leadership meets this week in Europe, without too much international controversy on the front burner apart from punishing the formerly-included Russian state--President Obama will likely focus on trade. The ADP private payrolls release continued its spotty predictive record relative to the NFP report, rising only 201k, which was right in line with consensus. Challenger job cuts fell from nearly 62k in April to 41k in May. While the ISM manufacturing survey beat expectations above 52 and the services version missed the mark at 55.7, both readings are within the recent range of modest growth. The Fed's beige book publication from the 12 districts highlighted the sluggish economy. The international trade imbalance narrowed to only -$40 billion and construction spending popped 2.2% MoM in April thanks to both residential and nonresidential projects, however. Consumers may be gaining spending steam as the credit report for the month of April showed nearly $9 billion of new revolving credit utilized and the entire complex outpacing forecasts by roughly 20%. Treasury will auction $58 billion of 3-, 10-, and 30-year paper this week, which will be closely watched with the jump in coupons and their recent weakness.

• The two biggest releases this week will be retail sales for May (+1.2% headline, +0.8% ex autos MoM) and the inflation report for goods producers (PPI), which is expected to rise 0.4% MoM in May after falling a like amount the month prior. The core reading should advance 0.1% MoM excluding food and energy. April inventory data should show modest builds (+0.2% MoM for wholesale and business). The Federal Reserve will release the net worth change for US households, which is expected to have advanced roughly $1.6 trillion in the first quarter of 2015. Initial jobless claims are expected to remain just north of recent decade-lows at 277k net new claims WoW.

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%	0.28%	0.28%	0.23%
6-month LIBOR	0.42%	0.42%	0.41%	0.32%
12-month LIBOR	0.75%	0.75%	0.72%	0.53%
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	0.10%	0.10%	0.05%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.71%	0.61%	0.63%	0.38%
3-yr Treasury	1.10%	0.93%	0.99%	0.80%
5-yr Treasury	1.74%	1.49%	1.55%	1.63%
7-yr Treasury	2.16%	1.87%	1.94%	2.17%
10-yr Treasury	2.41%	2.12%	2.19%	2.58%
30-yr Treasury	3.11%	2.88%	2.91%	3.44%
2s-10s Spread	1.70%	1.52%	1.56%	2.20%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.83%	0.86%	0.51%
3-yr LIBOR Swap	Call	1.14%	1.19%	0.92%
5-yr LIBOR Swap	Call	1.59%	1.66%	1.67%
7-yr LIBOR Swap	Call	1.88%	1.95%	2.17%
10-yr LIBOR Swap	Call	2.15%	2.21%	2.63%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.39%	0.43%	0.30%
3-yr SIFMA Swap	Call	0.63%	0.70%	0.58%
5-yr SIFMA Swap	Call	1.07%	1.14%	1.24%
7-yr SIFMA Swap	Call	1.39%	1.44%	1.72%
10-yr SIFMA Swap	Call	1.69%	1.74%	2.19%

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

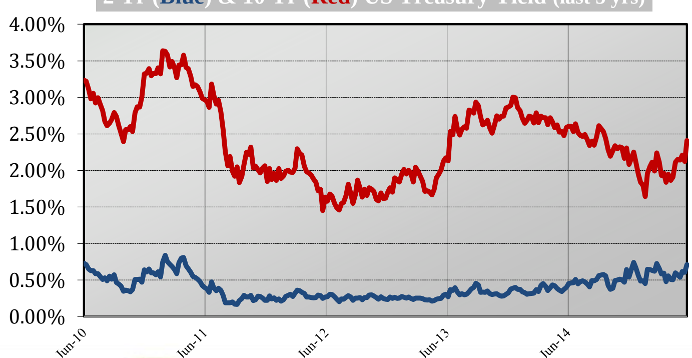
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	35	15	13	10
4-yr LIBOR Cap	89	44	23	28
5-yr LIBOR Cap	162	95	44	48
7-yr LIBOR Cap	346	213	109	105

Fwd Implied 3mL Rate	Last
Dec. 15	0.64%
Dec. 16	1.54%
Dec. 17	2.22%
Dec. 18	2.66%

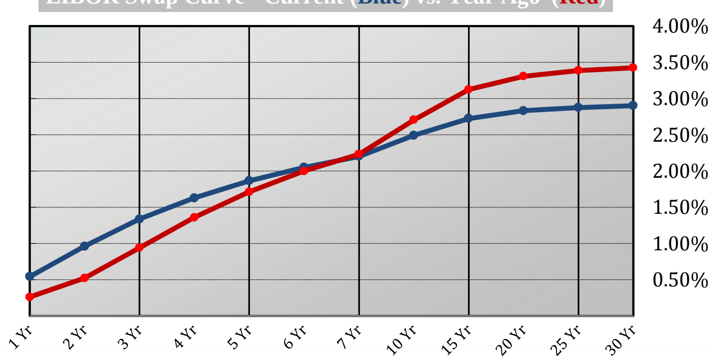
Conventions

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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