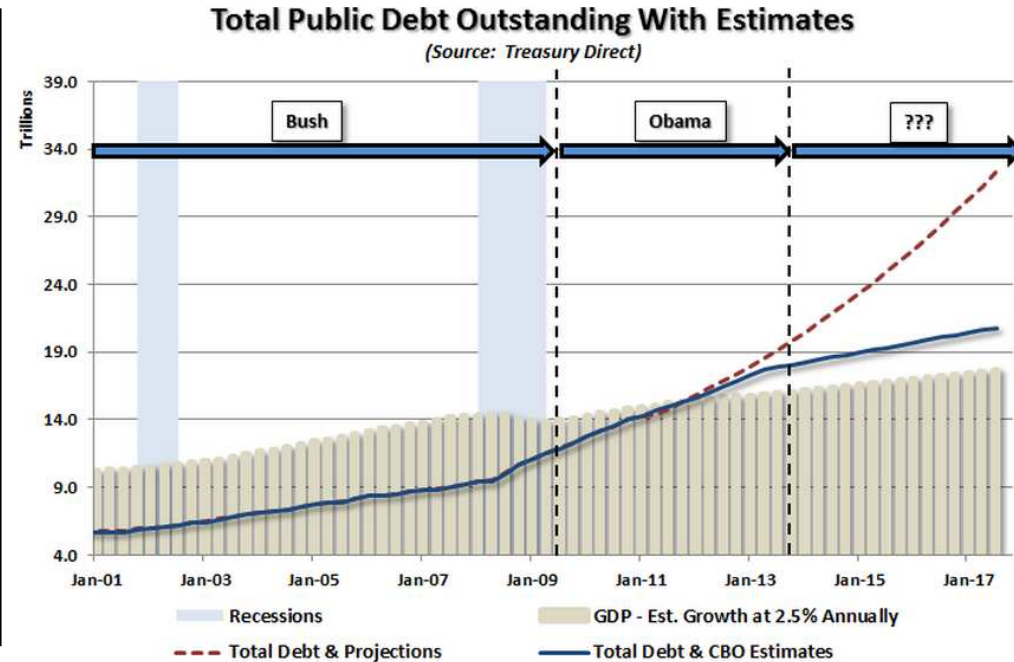


## Current Rate Environment

Short Term Rates	Today	Last Week	Change
1-Month LIBOR	0.26%	0.25%	0.01% ↑
3-Month LIBOR	0.50%	0.46%	0.04% ↑
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
<b>US Treasury Yields</b>			
2-year Treasury	0.27%	0.23%	0.04% ↑
5-year Treasury	0.89%	0.91%	(0.02%) ↓
10-year Treasury	1.96%	2.06%	(0.10%) ↓
<b>Swaps vs. 3M LIBOR</b>			
2-year	0.88%	0.81%	0.07% ↑
5-year	1.43%	1.40%	0.03% ↑
10-year	2.24%	2.31%	(0.07%) ↓

The blue line in the chart to the right is the current level of debt along with the Congressional Budget Office estimates going forward. The dotted red line extrapolates the increase in debt based on the average rate of increase of the debt under the current administration. GDP has been plotted as well and assumes a 2.5% annual growth rate for the years 2012-2017.



### Last Week's News:

#### U.S. Fed Speak / Economic News

- A week after the U.S. public debt surpassed \$15 trillion dollars for the first time in history, comments coming from members of the congressional Super Committee point to the probable failure to compromise on \$1.2 trillion-1.5 trillion in federal budget cuts over the next ten years by their long-awaited deadline, which is this Wednesday. The lack of willingness of U.S. politicians to negotiate continues to handicap domestic and global markets. Christine Lagarde, the managing director of the International Monetary Fund and debatably one of the most powerful women in the world, stated in an interview during *60 Minutes* last night that her biggest worry in the U.S. is "political bickering" and spoke of "a degree of certainty that is so much needed for markets." If the Super Committee, comprised of six republicans and six democrats does in fact fail, then \$1.1 trillion in automatic cuts will be triggered and will become effective in 2013. According to the Congressional Budget Office, \$554 will be cut from defense budgets, and another \$633 from discretionary, nonexempt mandatory (mostly lower Medicare payments to providers), and debt-service budgets. Budgets exempt from the automatic cuts include: Social Security; Medicaid; food stamps; other entitlement programs; earned income tax credit; and many other programs. Rather than continuing work on large budget overhauls after the Wednesday deadline, policymakers may try to block these spending cuts and turn most of their attention to the presidential election.
- The European Central Bank has stepped in to stabilize the market, after borrowing costs for Spain and Italy hit levels regarded as unsustainable last week. The ECB purchased almost 4.5 billion euros of bonds last week, though its willingness to apply funds is questionable since that is not near the 20 billion euro weekly limit imposed by its governing council. European financial stocks tumbled as rating agencies downgraded a slew of banks. Austerity measures and plans to ensure the solvency of euro zone nations remains the top priority for EU leaders; "If the euro fails, then Europe fails," stated Angela Merkel at a conference last week.

#### U.S. Economic Data

- U.S. retail sales beat expectations in October with a headline gain of 0.5% which defied the headwinds of surging market turmoil and falling equity prices. Nominal spending in 2011 remains solid, spurred by payroll tax cuts, and this could be further exacerbated if the holiday spending season meets expectations.
- This week will be subdued in regards to economic data with a couple of tier one releases on the docket, so the focus will remain on developments out of Spain and the PIIGS in general as well as fallout from the Super Committee debacle.

Date	Indicator	For	Forecast	Last
21-Nov	Existing Home sales	Oct	4.80 mln	4.91 mln
22-Nov	GDP QoQ	3Q	2.50%	2.50%
23-Nov	Durable Goods Orders	Oct	(1.20%)	(0.80%)
23-Nov	Personal Income	Oct	0.30%	0.10%
23-Nov	Personal Spending	Oct	0.30%	0.60%
23-Nov	U. of Michigan Confidence	Oct	64.5	64.2

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