INTEREST RATE MARKET INSIGHT

JANUARY 26, 2015

• The first Federal Open Market Committee meeting of 2015 for the Federal Reserve gets under way tomorrow, with the policy statement coming Wednesday afternoon to likely still contain a 'patient' stance on raising the target rate. The market seems to be expecting some sign of wage inflation before the Fed will make changes, so the GDP reports and jobs data between now and June will go a long towards telling if the Fed funds target rate and LIBOR will move up this year. The equity market rallied back to flat YTD after a nice move last week, while Treasury yields treaded water mostly apart from a small slippage at the back end of the curve. The 30-year long bond now yields 2.37%, which is an all-time low for the 30 years it has existed as a noncallable, marketable security. Greece's anti-austerity party won the prime minister race over the weekend and has formed a coalition to battle the ECB and Germany to 'regain [Greece's] lost dignity." Greek bonds fell 60 bps on the news, but Eurozone equities are up today, seemingly still euphoric after last week's ECB announcement that roughly $1.3 trillion of asset purchases will occur over the next 18 months. The euro currency continues to get crushed, down over 7% in the first month of the year to $1.12/euro.

• The trading could be choppy and light today with the east coast being threatened by a blizzard this morning. Housing data released last week was generally better than consensus, with existing home sales annualized at 5.04MM for December and 1.09MM annualized new housing starts. The FHFA home price index rose 0.8% MoM (5.3% YoY), and the homebuilder sentiment index stayed optimistic at 57. The leading indicators for December rose 0.5%, ahead of forecasts and the prior reading. Jobless claims rose more than expected but less than last week at 307k net new WoW. 77% of the companies in the S&P 500 that have reported have beaten estimates, although many consensus views have been lowered in energy and financial sectors of late, with oil attempting to find a bottom near $45/barrel and poor fixed income trading revenue out of the bulge bracket banks. The President's State of the Union address focused on the positives in the economy and the markets, and it seems most likely that his proposals on individual taxes will be quashed by the Republican-controlled Congress. Business tax reform, on the other hand, seems possible, if not probable, in the coming two years. Treasury will raise $90 billion when it auctions 2-, 5-, and 7-year notes this week.

• The FOMC meeting always makes for an active week, but the release of initial Q4 2014 GDP figures (3.3% QoQ gains expected) on Friday should add to the drama and potentially extend the volatility that has been around for most of January. The employment cost index is expected to rise 0.5% QoQ, and any signs of wage inflation will cause the markets to reconsider the Fed's rate hike timing. New (452k annualized) and pending (+0.9%MoM) homes sales should show gains when their reports are released, while Chicago PMI is expected to decline modestly from still-lofty levels. Durable goods orders should advance 0.7% MoM, 0.8% when excluding volatile transportation sector transactions.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.17%	0.17%	0.17%	0.16%
3-month LIBOR	0.26%	0.26%	0.25%	0.24%
6-month LIBOR	0.35%	0.35%	0.36%	0.34%
12-month LIBOR	0.62%	0.61%	0.63%	0.57%
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%	0.04%	0.04%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.49%	0.49%	0.74%	0.36%
3-yr Treasury	0.85%	0.82%	1.16%	0.77%
5-yr Treasury	1.31%	1.30%	1.74%	1.60%
7-yr Treasury	1.60%	1.61%	2.06%	2.23%
10-yr Treasury	1.80%	1.84%	2.26%	2.78%
30-yr Treasury	2.37%	2.45%	2.85%	3.68%
2s-10s Spread	1.31%	1.35%	1.52%	2.42%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.70%	0.90%	0.49%
3-yr LIBOR Swap	Call	1.01%	1.31%	0.86%
5-yr LIBOR Swap	Call	1.42%	1.81%	1.67%
7-yr LIBOR Swap	Call	1.67%	2.08%	2.27%
10-yr LIBOR Swap	Call	1.90%	2.32%	2.81%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.38%	0.51%	0.29%
3-yr SIFMA Swap	Call	0.61%	0.83%	0.56%
5-yr SIFMA Swap	Call	1.01%	1.31%	1.27%
7-yr SIFMA Swap	Call	1.29%	1.62%	1.84%
10-yr SIFMA Swap	Call	1.56%	1.91%	2.38%

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

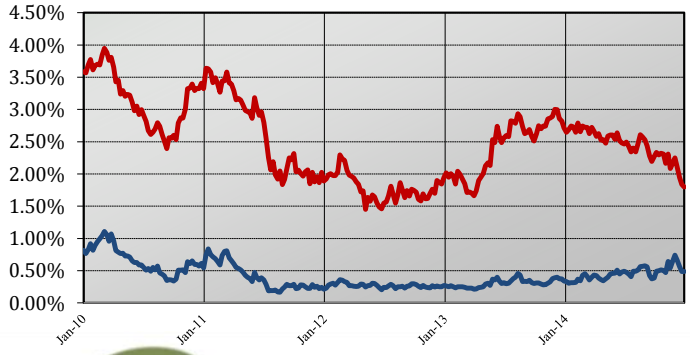
Agency Rate Caps (in bps)	LIBOR = 3%	LIBOR = 4%	LIBOR = 5%	LIBOR = 6%
3-yr LIBOR Cap	28	16	13	7
4-yr LIBOR Cap	69	37	23	29
5-yr LIBOR Cap	120	67	40	27
7-yr LIBOR Cap	261	152	95	102

Fwd Implied 3mL Rate	Last
Dec. 15	0.71%
Dec. 16	1.50%
Dec. 17	1.98%
Dec. 18	2.24%

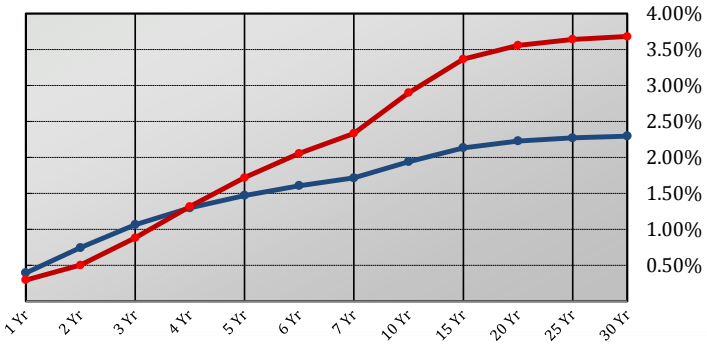
Conventions

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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