Interest Rate Market Insight

May 27, 2014

• To start the holiday shortened week, CP would once again like to commend and thank our military service men and women and their families this Memorial Day week, both home and abroad, past and present, for all the protections they have provided and the liberty they effect. We certainly would not enjoy the freedoms we do, or even likely exist, without their strength and selflessness, and the sacrifices their families make are beyond courageous. With a soft early close on Friday, the majority of assets rose modestly for the week as economic data waffled, but that move managed to push the S&P 500 to a new closing high above 1900 while the 10-year Treasury yield was up only a single basis point WoW to 2.53%. The front end of the curve fell about 3 basis points to steepen the curve slightly. The housing picture remained soft, with new home sales slightly beating consensus and existing home sales missing forecasts modestly, but with the latter accounting for more than 10 times the annualized volume. Leading indicators rose 0.4% MoM, roughly half the rate of the month prior, but in line with expectations from economists. Jobless claims continued their herky-jerky pattern and jumped 30k to 326k net new claims after sliding to a revised 298k the week prior. The FOMC minutes from the late April meeting were released last week, and while no earth shattering news emerged, the focus of the meeting apart from immediate tapering was planning for policy normalization, and looking at strategies that would allow for both an orderly unwind of the balance sheet and abundant clarity for the markets. The Q1 GDP was essentially written off as transitory and weather-related, and with some forecasting Q2 QoQ GDP catching what was lost at above 4%, the Federal Reserve saw no need to change direction on the current policy directives. Normalization would appear to be a few years away. The Markit US Manufacturing PMI flash beat consensus with solid growth at 56.2, led by new order strength and hindered only by the export category. The German DAX equity index hit a high yesterday on the holiday, as EU policy accommodation starts to act has it has in the States with a lag, however some look for more easing by the ECB in months to come.

• The data to come in the shortened week is worth watching, as durable goods orders rose 0.8% MoM and +0.1% ex transportation, both better than expected. S&P Case-Shiller home prices rose over 1% MoM, and are up 10% YoY in early release as well. We get the first revision to Q1 GDP on Wednesday, and it may slip into contraction territory based on the consensus, even as consumption rose 3.1% QoQ annualized. Friday will bring the report on personal income and spending (expected to rise MoM 0.3% and 0.2%, respectively) that also includes closely followed inflation data in the form of the PCE deflator and core PCE, both expected to stay below the Fed's inflation target levels.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-month LIBOR	0.15%	0.15%	0.15%	0.19%
3-month LIBOR	0.23%	0.23%	0.23%	0.27%
6-month LIBOR	0.32%	0.33%	0.32%	0.42%
12-month LIBOR	0.54%	0.53%	0.55%	0.69%
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	0.08%	0.12%	0.15%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.34%	0.36%	0.44%	0.25%
3-yr Treasury	0.78%	0.81%	0.90%	0.41%
5-yr Treasury	1.53%	1.56%	1.73%	0.89%
7-yr Treasury	2.07%	2.08%	2.29%	1.38%
10-yr Treasury	2.53%	2.52%	2.70%	2.02%
30-yr Treasury	3.39%	3.35%	3.48%	3.19%
2s-10s Spread	2.19%	2.16%	2.26%	1.77%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR Swap	Call	0.50%	0.53%	0.39%
3-yr LIBOR Swap	Call	0.90%	0.98%	0.55%
5-yr LIBOR Swap	Call	1.61%	1.77%	1.03%
7-yr LIBOR Swap	Call	2.10%	2.28%	1.53%
10-yr LIBOR Swap	Call	2.55%	2.72%	2.09%

Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA Swap	Call	0.30%	0.32%	0.28%
3-yr SIFMA Swap	Call	0.58%	0.64%	0.39%
5-yr SIFMA Swap	Call	1.21%	1.33%	0.79%
7-yr SIFMA Swap	Call	1.67%	1.82%	1.24%
10-yr SIFMA Swap	Call	2.13%	2.27%	1.76%

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

Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	19	14
5-yr LIBOR Cap	100	62
7-yr LIBOR Cap	249	178
10-yr LIBOR Cap	538	348

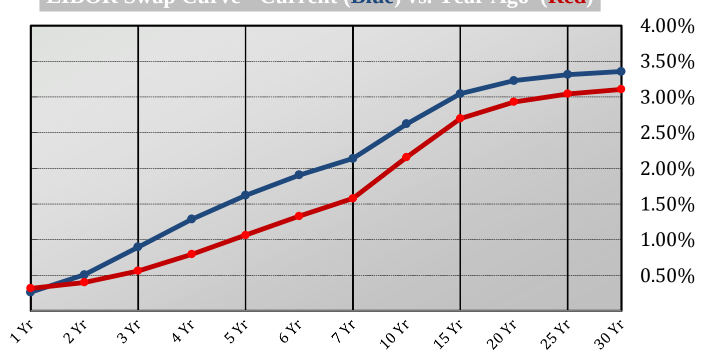
Fwd Implied 3mL Rate	Last
Dec. 14	0.28%
Dec. 15	0.89%
Dec. 16	1.91%
Dec. 17	2.72%

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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