

SMBC Capital Markets, Inc.

U.S. Swaps and Currency Market Outlook for August 30, 2010

Interest Rate Market Focus

The Treasury market sold off on the week after Q2 GDP was revised slightly better than expected and Bernanke announced that the central bank is prepared to take further actions in response to concerns that economic growth looks increasingly like it will slow. The market needed the confidence boost after poor economic data earlier in the week that had weakened market sentiment. The 2yr Treasury yield increased by 4bps to 0.53% while the 5yr Treasury was unchanged on the week at 1.45%. Both the 10yr and the 30yr Treasury yields increased by 3bps to 2.64% and 3.69%, respectively.

In a speech delivered at the Federal Reserve Bank of Kansas City's annual symposium in Jackson Hole, Wyoming, Ben Bernanke commented that the preconditions for growth to pickup are still in place and growth is still expected to pick up in 2011, partially triggered by consumers who have taken big steps in mending their damaged finances. While Bernanke's prospects for next year were positive, he did say that the Fed was prepared to respond if growth continues to tail off. Meanwhile data released on Friday showed that the economy grew more sluggish than initially estimated in the second quarter, and corporate profits nearly dried up. Gross domestic product rose at an annualized seasonally adjusted rate of 1.6% from April to June rather than the 2.4% initially estimated. Still, the revised estimate for the second quarter was above expectations for a 1.4% gain. The GDP report also showed that companies barely managed to post profits, following several very profitable quarters. After-tax earnings edged up 0.1%, well off the previous quarter's gain of 11.4%. First-quarter profits were revised down from the initial estimate of a 12.1% increase.

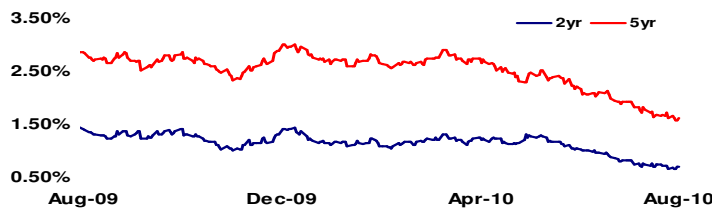
Both sales of existing homes and new homes dropped to record lows in July. Existing home sales plunged 27.1% in July to their lowest level in 15 years, nearly twice as much as forecast to an annual rate of 3.83 million. The decline in sales pushed inventory up to 12.5 months from 8.9 months in June, further pressuring already depressed home prices. Inventories are at their highest level in more than a decade. The market had expected existing home sales to fall by 14.3% to an annual rate of 4.6 million units. Sales of new homes in July fell 12.4% from June, to a seasonally adjusted annual rate of 276,000 units. Year over year sales of new homes were down 32.4%. The market had expected sales to be flat in July from June. June sales were revised down to a seasonally adjusted annual rate of 315,000, from 330,000, after May fell to an annual rate of 267,000. The steep decline in sales in July reflects both the weak economic recovery and the expiration of a government tax credit that had supported the housing market for more than a year. Despite mortgage rates at record low levels, the lingering troubles in the labor market continue to restrain the nation's housing recovery.

New orders for manufactured goods rose far less than expected in July and, excluding transportation equipment, posted their largest decline in a year and half. Durable goods orders rose 0.3% after a revised 0.1% fall in June. Excluding transportation, orders dropped 3.8%, the largest fall since January 2009 and after rising 0.2% in June. Orders were forecasted to increase by 2.8% last month from June's previously reported 1.2% decline. Orders excluding transportation were expected to increase 0.5% from the previously reported 0.9% fall. Meanwhile, initial jobless claims dropped by more than the market's estimate, easing concern about the economic recovery. Initial jobless claims dropped by 31,000, the first decline in a month, to 473,000 in the week ended Aug. 21. The number of people receiving unemployment insurance decreased, while those getting extended benefits climbed. The claims were expected to decline to 490,000.

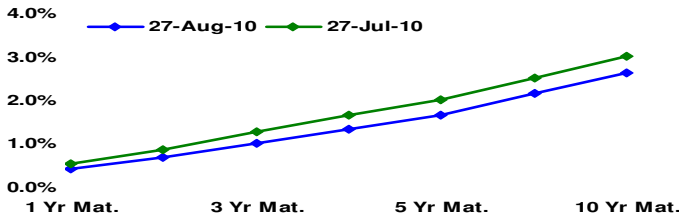
Swap spreads were mixed on the week as both the 2yr and the 5yr declined by a basis point to 16.5bps and 21.6bps, respectively. The 10yr and the 30yr swap spread increased by a basis point to 2.5bps and -34.5bps, respectively. The 2yr swap rate increased by 3bps to 0.70%, while the 5yr was unchanged at 1.68%. Both the 10yr and the 30yr swap rate increased by 4bps to 2.67% and 3.35%, respectively.

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1 Yr Historical US Dollar Swap Graph



U.S. Dollar Swap Curve Monthly Comparison



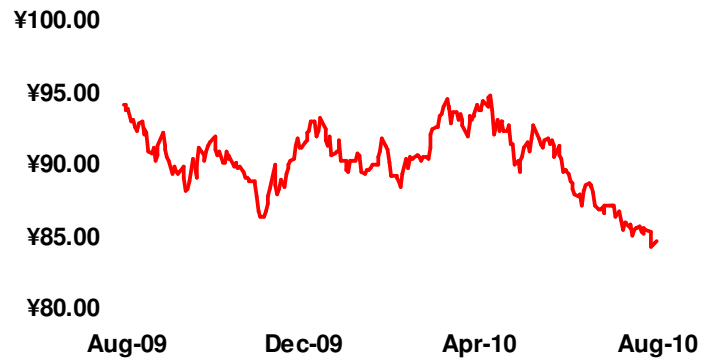
FX Rate

Thin and choppy trading conditions are likely to continue going into month end and ahead of the US Labor Day holiday. The US economic calendar will be full next week with Personal Income and PCE (Mon), Consumer Confidence and Chicago Purchasing Manager (Tues), ISM and Construction Spending (Wed), Factory Orders (Thurs) and Non-Farm Payrolls and Unemployment (Fri). Releases are expected to remain mixed and the market will be looking for further confirmation that the US recovery has become sidetracked. The USD has come under broad pressure against major currencies and the JPY has strengthened to 15 year highs to the dismay of Japanese officials due to the renewed weakness in the US economy, as opposed to a strengthening Japanese economy. FX players are wary that the BOJ will intervene or provide some policy action to prevent further appreciation of its currency in the short term, and trading ranges in the JPY and JPY crosses have become cautious. A technical recovery and retracement back above 87.00 (USD/JPY) and 110.00 (EUR/JPY) is necessary for a return to previous trading ranges, but FX players might continue to see JPY strength in the short term. The EUR/USD has remained range bound between 1.2500-1.300 and is likely to maintain these levels. A break above 1.2750 would be necessary for further gains to 1.3000. The G-20 meeting will also be closely watched for comments regarding the ongoing strength of the JPY and some banking officials have already expressed reservations regarding government intervention in the currency markets. Despite stronger data in the Eurozone and Germany recently, the ECB is likely to remain on hold at its policy meeting while Sweden will confirm its strong economy with a 25bp hike from 0.50% to 0.75% (Thurs).

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Ranges:	Last Week	This Week
USD/JPY	83.55-85.65	82.50-86.00
EUR/USD	1.2590-1.2760	1.2500-1.2800
USD/CHF	1.0225-1.0450	1.0150-1.0475
GBP/USD	1.5375-1.5600	1.5300-1.5750

1Yr. Historical JPY/USD Spot FX Graph



Major Economic Releases

Date	Time	Release	For	Forecast
30-Aug	8:30	Personal Income	Jul	0.3%
30-Aug	8:30	Personal Spending	Jul	0.3%
31-Aug	2:15	FOMC Rate Decision	31-Aug	0.25%
1-Sep	8:15	ADP Employment change	Aug	15k
1-Sep	10:00	ISM Manufacturing	Aug	52.8
2-Sep	8:30	Initial Jobless Claims	28-Aug	475k
2-Sep	10:00	Factory Orders	Jul	0.4%
2-Sep	10:00	Pending Home Sales MoM	Jul	-1.0%
3-Sep	8:30	Change in Nonfarm Payrolls	Aug	-100k
3-Sep	8:30	Unemployment Rate	Aug	9.6%
3-Sep	8:30	Change in Manufact. Payrolls	Aug	10k