

**Interest Rate Market Focus**

The Treasury market rallied throughout the week as JP Morgan stunned the markets by disclosing heavy losses, Greek political turmoil continued, the health of the Spanish banks was questioned and U.S. economic data was mixed. The 2yr Treasury yield was unchanged at .25%, while the 5yr, 10yr, and 30yr Treasury yield declined by 4bps, 4bps, and 6bps to .75%, 1.83%, and 3.0%, respectively.

In a week marked by a falling stock market made worse by disclosure that JP Morgan/Chase lost \$2 billion dollar in its trading activities, there were some positive signs of a continuing recovery. The Thomson Reuters/University of Michigan's preliminary May reading on the overall index on consumer sentiment improved to 77.8 from 76.4 in April, topping forecasts for a small decline to 76.2. The reading was the highest level in four years, as lower fuel costs are helping households look beyond a retreat in stocks and weaker employment growth. Gasoline prices that have declined 21 cents from an almost one-year high may help household finances just as job growth slowed in April to the weakest pace in five months.

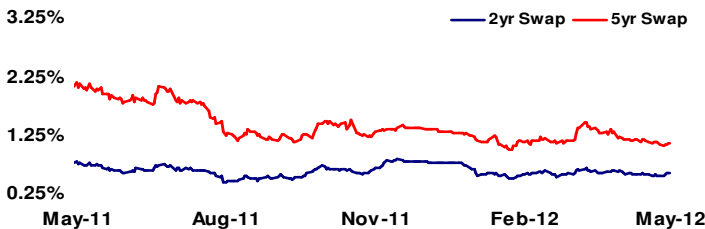
Wholesale inventories rose less than expected in March, led by a 5.9% drop in petroleum stocks. Wholesale stockpiles increased 0.3% in March from February, just one-third of the previous monthly increase. Monthly sales rose 0.5% in March, about half the gain from the previous month. Growth in inventories slowed this year from the end of last year, contributing less to economic growth in the first quarter. Businesses order more goods when they increase their stockpiles which leads to more factory production and economic growth. The market was expecting inventories to rise by 0.6%. Meanwhile, new claims for unemployment benefits edged down last week, easing concerns that the labor market is deteriorating after April's weak employment growth. Initial claims for state unemployment benefits slipped 1,000 to a seasonally adjusted level of 367,000. The prior week's figures were revised up to 368,000 from the previously reported 365,000. The market had forecasted claims inching up to 370,000 last week. The four-week moving average for new claims, considered a better measure of labor market trends, fell 5,250 to 379,000.

Producer prices unexpectedly fell in April as energy costs dropped by the most in six months, a sign of easing inflation. The PPI dropped 0.2% last month, the first drop of the year and the largest decline since October. The market was expecting the index to be flat for the month. The decline left wholesale prices 1.9% higher in April compared to a year earlier, and was the weakest reading since October 2009. Wholesale prices excluding volatile food and energy costs rose in line with economists' expectations for an increase of 0.2% after March's 0.3% gain. There was a 1.4% drop in energy prices which contributed to the decline of the index. Gasoline costs dropped 1.7%, while prices also fell for residential natural gas and liquefied petroleum gas.

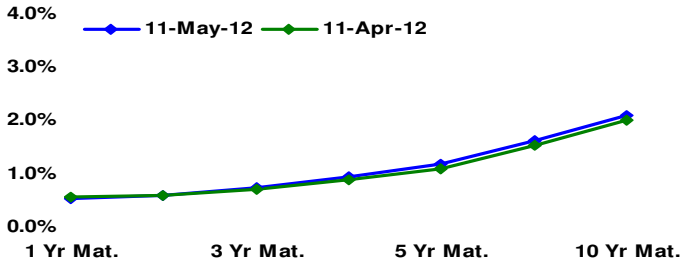
Swap spreads widened on the week as the 2yr, 5yr and 10yr swap spread increased by 6bps, 5bps and 1bp to 34.8bps, 37.7bps, and 15bps, respectively. The 30yr swap spread was unchanged at -28bps. The 2yr and the 5yr swap rates increased by 6bps and 1bp to .61%, and 1.10%, respectively. The 10yr swap rate declined by 3bps to 1.99%, while the 30yr swap rate declined by 6bps to 2.73%.

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**1 Yr Historical US Dollar Swap Graph**



**U.S. Dollar Swap Curve Monthly Comparison**



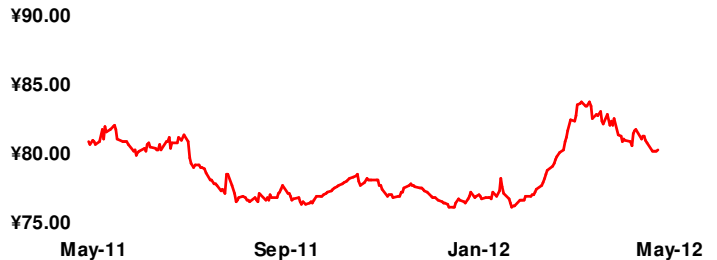
**FX Rate**

Risk off sentiment persisted throughout the entire week last week as nervousness over Greece, Spain, and the rest of Europe pushed EUR/USD through key technical support at 1.2974. EUR/USD even closed last week below 1.2974, which was a very bearish technical development, but EUR/USD's weekly loss was more technically important than it was large as the currency pair's total loss on the week was only about 100 points. Nonetheless, EUR/USD is likely to trade with a downside bias throughout the coming week and a downside target of 1.2624. If EUR/USD is able to trade higher, 1.2974 should now become a point of technical resistance. USD/CHF traded higher last week in reaction to the euro's weakness, as USD/CHF traders were unwilling to test the Swiss National Bank's commitment to keep EUR/CHF above 1.2000. In the coming week USD/CHF should continue to take its directional cue from the euro, with further euro weakness pushing USD/CHF up towards 0.9335 and any euro recovery allowing USD/CHF to trade back down towards technical support at 0.8931. GBP/USD traded lower for a second consecutive week last week as commentary following last Thursday's Bank of England meeting was more dovish than expected. GBP/USD's losses last week were not large, but they did put a dent in GBP/USD's bullish technical profile and reduce the likelihood of GBP/USD reaching its 1.6618 upside target anytime soon. If GBP/USD trades lower in the coming week, technical support would be expected at 1.5819. USD/JPY was confined to a very narrow range last week and finished last week virtually unchanged from its previous week's close as the currency pair is sandwiched between negative sentiment and the specter of intervention from the Bank of Japan. This dynamic is expected to persist in to the coming week, so another week of narrow range trading is likely. 76.03 should continue to be USD/JPY's downside target and 83.31 should continue to be USD/JPY's most important point of technical resistance, but neither of these levels is likely to come in to play in the coming week.

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Ranges:	Last Week	This Week
USD/JPY	79.43-80.08	79.00-81.00
EUR/USD	1.2905-1.3073	1.2624-1.2974
USD/CHF	0.9191-0.9307	0.9200-0.9400
GBP/USD	1.6062-1.6199	1.5900-1.6199

**1Yr. Historical JPY/USD Spot FX Graph**



**Major Economic Releases**

Date	Time	Release	For	Forecast
15-May	8:30	Consumer Price Index (MoM)	Apr	0.0%
15-May	8:30	CPI Ex Food & Energy (MoM)	Apr	0.2%
15-May	8:30	Retail Sales	Apr	0.2%
15-May	8:30	Retail Sales Less Autos	Apr	0.2%
16-May	8:30	Housing Starts	Apr	685k
16-May	8:30	Building Permits	Apr	728k
17-May	8:30	Initial Jobless Claims	12-May	365k