



Tuesday May 18, 2010 8:46 AM

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CURRENT OFFERING YIELDS - Tuesday: 05/18/2010 8:46 AM

TODAY'S ECONOMIC DATA

	Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)			
3 mo	0.153%	-0.80 bp's	0.193%	0.511%			18-May	Producer Price Index (MoM)	Prior: 0.7% Actual: -0.1%
6 mo	0.225%	-0.30 bp's	0.260%	0.602%			18-May	PPI Ex Food & Energy (MoM)	Prior: 0.1% Actual: 0.2%
12 mo	0.342%	+0.1 32'ds	0.509%	0.814%			18-May	Producer Price Index (YoY)	Prior: 6.0% Actual: 5.5%
2 yr	0.806%	-0.5 32'ds	1.011%	1.329%	1.706%	1.756%			
3 yr	1.268%		1.469%	1.935%	2.268%	2.368%			
5 yr	2.192%	-1.0 32'ds	2.387%	3.147%	3.042%	3.342%		DJIA	10,701.82 75.99
10 yr	3.468%	-1.0 32'ds	3.692%	5.102%	4.418%	4.468%		NASDAQ	2,372.37 18.14
30 yr	4.333%	+5.0 32'ds	4.908%	6.950%				S & P 500	1,147.48 10.54

Source: Bloomberg Fair Value Curve or Last Price (Treasury only); ALL yields and spreads are "representative", not actual. Spreads change as the market changes, actual offerings may be higher or lower than

TODAY'S NEWS

Treasury Breakeven Rate Narrows as Producer Prices Decrease, Housing Gains

May 18 (Bloomberg) -- The difference in yield between Treasury Inflation Protected Securities and 10-year notes narrowed for a fourth day as reports showed U.S. producer prices unexpectedly fell while housing starts increased more than forecast. The breakeven rate, a gauge of trader expectations for consumer prices, shrank to 2.20 percent as data showed wholesale prices declined 0.1 percent last month and housing starts increased 5.8 percent. Treasury yields slid this month on concern Greece's debt crisis would slow economic growth.

Today's Topic: Rising Rates Around the Corner?...Not So Fast!

If you spend any time watching college football on ESPN you know coach Lee Corso's signature line "not so fast!" which he breaks out when co-hosts Chris Fowler, Kirk Herbstreit or Desmond Howard jump to a premature conclusion. It's not so much that he thinks their perspective is skewed, but more that he senses a different path of events springing from certain factors he believes they have misunderstood. If coach Corso were writing copy in today's financial presses, perhaps the headline would read as follows:

Rising Rates in 2010 Charred Beyond Recognition in a "Greece Fire"

Excerpting from a Monday Bloomberg story, the "Corso Conclusion" emerges:

Bond Bears Reverse Rate Forecasts on Dollar Demand ***By Daniel Kruger and Cordell Eddings***

May 17 (Bloomberg) -- Europe's sovereign debt crisis is prompting some of the Treasury market's biggest bears to reverse calls for Federal Reserve interest-rate increases this year.

Morgan Stanley, Wrightson ICAP and Pierpont Securities LLC say the Fed will keep interest rates near zero percent after the European Union unveiled an almost \$1 trillion loan package to halt a slide in the euro and local bonds that threatened to shatter the currency union. Futures show traders place a 40 percent likelihood that the central bank will raise borrowing costs by December, down from 73 percent a month ago. "This is a mea culpa from me on our rate call," James Caron, global head of interest-rate strategy at Morgan Stanley, wrote at the start of a May 13 report. The New York-based firm, the most pessimistic among the Fed's 18 primary dealers, reduced its year-end 10-year note yield forecast to 4.5 percent from 5.5 percent. "We did not appropriately discount the sovereign risk conditions which have contributed to keeping yields low."

Firms that started 2010 predicting a second consecutive year of losses (ie: falling bond prices, rising bond yields) in U.S. government debt are growing less pessimistic (in their bond forecast) after the Fed opened currency swap lines last week to central banks to ensure European financial institutions have access to dollars, expanding the Fed's balance sheet.

Reversing forecasts? Rewriting forecasts? A bond portfolio manager can get a good case of whiplash trying to stay in concert with market veins as published by major banks and economic desks. What to do coach Corso? Easy, go to the Decision Matrix! As shown below, this is the investment rubric we've authored and executed for years and know it to be a steady handed market read. But if it looks uncertain or you've forgotten its salient points, please call your CCB rep for color commentary that would make Coach Corso smile and break huddle with zeal. First and ten, the ball's in your hands, here we go...

The Decision Matrix

	Yield Curve	Liability Strategy	Loan Strategy	Investment Duration	Investment Convexity	Investment Products	Leverage Strategy
+2 Std	Inverted	Short Specials; Short Advances	Tight Credit; Fixed Rates; Prepay Penalty	Max Duration	Min Optionality	Long Bullets & Muni; DUS	Max Leverage (Max Invest)
+1 Std	Flattening	Short Specials; Short Advances	Tighten Credit Standards	Start Extending Duration	Less Optionality	1X Call; Disc Call; CMO w/ lockout	Incr Leverage (More Invest)
-1 Std	Steepening	Longer Specials; Longer Advances	Relax Credit Standards	Start Shortening Duration	More Optionality	Repeating and/or Prem Calls	Incr Leverage (More Loans)
-2 Std	Very Steep	Longest Specials; Longest Advances	Easier Credit; Floating Rate; No Caps	Min Duration	Max Optionality	ARMs; Balloons; Repeating Calls	Max Leverage (Max Loans)