

## Agency Bulletin

Aug 11, 2014

Agency spreads ended the week 2-3bps wider but again outperformed swaps that widened even more. Market activity continues to be dominated by safe haven buying as concern surrounding Iraq, Ukraine, and Gaza drove the 10yr Treasury yield through 2.40% to the lowest levels of the year and pushed swap spreads wider. Fear in the market has driven up volatility and callable spreads widened out nicely. On the new issue front, the market welcomed a new, \$3b, FHLB, 2yr global. The initial price talk was +15.5 which was a reasonable concession to surrounding issues. It was tightened to +15 due to orders exceeding \$4.75b and broke +14.5/+14. 71% of the deal went into the U.S., with money managers taking 55% and central banks 23%. FHLMC, which hasn't issued since January, has the first of 2 slots on 8/13 but will likely pass. We continue to see investors sell 2yr bullets which are trading close to flat to Treasuries and extend up the curve. We continue particularly favor the 4yr sector which offers optimal roll and total return potential.

### Relative Value: 10yr PEFCO Bullet, U.S. Government Backed & Cheap to Agencies

Issuer	Coupon	Maturity	Price	YTM	Spread	G-Spread	Deal Size
PEFCO(742651DP4)	2.45	7/15/2024	\$95.846	2.936%	+51/10yr	G+50	\$400mm

Compare: FHLMC 2.375 1/22 +27.5/+25.5 vs 7yr G+19. These PEFCO's are 30bps cheaper than the closest benchmark and are U.S. Government backed.

### Relative Value: Discount 8.5yr Global, Great Bullet Substitute

Issuer	Coupon	Maturity	Price	YTM	Spread	G-Spread	YTC	Deal Size
FNMA(3135G0VT7)	2.05	3/27/23-14	\$97.451	2.835%	+40/10yr	G+50.5	23.27%	\$250mm

This discount 8.5yr Global callable offers an excellent bullet substitute but much more yield.

Compare: FHLMC 2.375 1/22 +27.5/+25.5 vs 7yr G+19, these callables are G+50.

### Indicative New Issue Agency Spreads

Call Structure	Maturity						
	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year	15 Year
Bullets	-24/2yr	+8	+14	+13	+26/7yr*	+39	NA
Non - Call - 1month	NA	NA	NA	NA	NA	NA	NA
Non - Call - 3month	-19	+12	+23	+34	+56	+83	+136
Non - Call - 6month	-21	+11	+21	+30	+52	+78	+132
Non - Call - 1 Year		+10	+18	+28	+49	+76	+128
Non - Call - 2 Year				+24	+46	+71	+122
Non - Call - 3 Year				+22	+43	+65	+120
Non - Call - 5 Year						+62	+116

### Swap Spreads:

Maturity	Today's Spread	Avg (1YR)
2 Year	25/23	14
3 Year	25/23	13
4 Year	26/24	14
5 Year	19/17	11
7 Year	13/11	10
10 Year	18/16	12

### Mid Market Swaption Volatility:

Structure	Today's Vol.	Avg (1YR)	Max (1YR)	Min (1YR)
2NC1yr	59.3%	70.1%	84.1%	54.3%
3NC3mo	46.4%	54.8%	77.3%	41.2%
3NC1yr	50.3%	59.6%	69.6%	40.0%
5NC3mo	36.0%	41.9%	57.6%	32.0%
5NC1yr	38.4%	42.9%	49.6%	35.6%
5NC3yr	35.7%	36.7%	40.9%	33.4%
10nc1yr	27.9%	27.1%	32.9%	23.2%
10nc3yr	27.8%	26.0%	28.2%	24.0%
10nc5yr	27.2%	24.0%	27.2%	22.1%