

# Interest Rate Hedging Market Update November, 2005

## Watch for an Inverted Yield Curve in Q1 2006

### MARKET UPDATE

Long term swap rates took a breather from the 78 basis point increase since Sept. 1<sup>st</sup>. Rates came down 16 basis points since their high earlier this month.

The flattening trend in the long end has continued with the difference between the 5 year swap and the 10 year narrowing to 12 basis points compared to a difference of 54 basis points in the beginning of this year. In the short end of the curve a steepening has taken place since Sept. The difference between the one month LIBOR rate and the 2 year swap has moved out to 61 bps from 37 basis points in Sept.

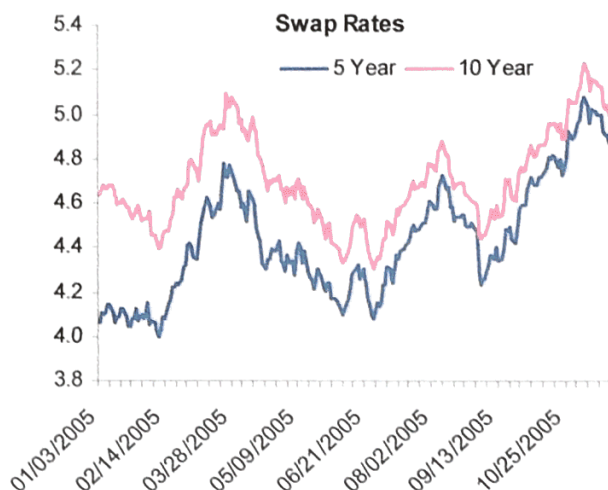
Watch for an inverted yield curve in the first quarter of '06 which should prompt hedgers to rebalance their portfolios. Consideration should be given to short and intermediate term collars to take advantage of a possible end to rising rates in the short end of the curve.

### Year End Impact:

Short term rates tend to spike at year end due to liquidity pressures. Historical data has shown that long term rates also tend to rise at year end. During the past 10 years long term rates have risen in 7 of 10 years by an average of 13 basis points. The largest increase was in '01 when rates rose by

### Futures:

From the chart on the right the Eurodollar futures market calls for a 3 month LIBOR rate to rise only 31 basis points during the next 12 months. The market consensus calls for a 25 basis point Fed tightening at its Dec. 13<sup>th</sup> meeting followed by an 80% chance of a further tightening in the Jan. meeting. Keep in mind that the Dec. tightening is already factored into the current LIBOR rate.



Eurodollar Futures		
Current 3 mo. LIBOR:		4.39%
EDV5	DEC05	4.49%
EDX5	JAN06	4.57%
EDZ5	FEB06	4.65%
EDF5	MAR06	4.72%
EDZ6	DEC06	4.70%
EDU7	DEC07	4.72%
EDU8	DEC08	4.84%
EDU9	DEC09	4.97%
EDU10	DEC10	5.08%
EDU11	DEC11	5.19%
EDU12	DEC12	5.32%
EDU13	DEC13	5.44%
EDU14	DEC14	5.56%

MARKET AT A GLANCE				
		Current	Last mo	Change
PRIME		7.00	6.75	0.25
LIBOR	1 mo	4.19	4.05	0.14
LIBOR	1 yr	4.79	4.57	0.22
Treasury	5 yr	4.34	4.32	0.02
Treasury	10 yr	4.44	4.45	(0.01)
Swap	5 yr	4.72	4.65	0.07
Swap	10 yr	4.87	4.79	0.08