Short Term Market Outlook and Strategy

- While it has been mostly business as usual in the money markets since our last publication, Fed expectations are starting to come more into play for market participants
- Wells Fargo recently became the latest large MMF complex to address its plan for dealing with MMF reform. The complex will offer institutional prime and muni floating NAV funds, and does not intend to implement gates or fees on its government MMFs
- We provide our FDIC quarterly banking update for 1Q15
- Large bank portfolios continue to increase their holdings of HQLA, mostly in the form of reserves held at the Fed and UST, in order to adhere to LCR rules…
- …however, the growth of HQLA holdings slowed noticeably on a quarter-over-quarter basis, probably due to the fact that most large banks are already in compliance with LCR
- Although the largest banks did not yet exhibit any large scale shedding of deposits during the first quarter, their respective deposit holdings moderated with mid-cap banks picking up the slack

US Fixed Income Strategy

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Money Market

Rates	1d	1w	1m	3m	6m	12m
T-Bills	-	-	0.01	0.01	0.07	0.26
Agency Disco	-	-	0.06	0.10	0.16	0.31
LIBOR	-	-	0.18	0.28	0.42	0.75
ABCP	0.14	0.18	0.17	0.23	-	-
AA Fin CP	0.08	0.06	0.08	0.16	-	-
AA Non-Fin	0.08	0.07	0.08	0.10	-	-
Tier 2 CP	0.37	0.41	0.42		-	-
GC Repo	0.21	0.17	0.19	0.23	-	-
MBS Repo	0.24	0.19	0.22	0.28	-	-

2a-7 Funds (5/28/15)	AUM ($bn)	Gross Yield
Prime Instit	957	0.23%
Prime Retail	466	0.20%
Gvt/Agcy Instit	352	0.12%
Gvt/Agcy Retail	113	0.11%
Treas Instit	406	0.09%
Treas Retail	68	0.08%
Total Taxable	2362	
Total Tax Exempt	244	
Total MMF	2606	

Spreads	1y	2y	3y
Agency swap spread	-	-17	-16
JULI (HG fixed) z-spread	39	47	55
FRNI (HG floating) DM	37	40	47
AAA prime auto ABS (fixed) swap spread	22	22	27
AAA CC ABS (fixed) swap spread	-	20	24

Fed	
Fed Funds Target Rate	0 - 0.25%
RRP Rate	0.05%
RRP Usage (5/15)	$160.201bn
RRP 1w Usage Change	+$54.4bn (+51%)
Next FOMC Meeting	Jun 16th-17th, 2015

Upcoming Bill Auctions	Announce	Auction	Settle	Size
1m	6/1	6/2	6/4	TBD
3m	5/28	6/1	6/4	$24bn
6m	5/28	6/1	6/4	$24bn

Economic Calender Data	Date	Time
ISM manufacturing	6/1	10:00am EST
Trade balance	6/3	8:30am EST
Employment	6/5	8:30am EST

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Market commentary

Since our last publication, activity in the money market space has been business as usual. Heading into month-end, most short-term rates and spreads remained mostly pinned last week while fund flows were relatively subdued. Despite the recent lack of action in the front-end, it does appear as if Fed expectations are starting to come more into play. While the OIS market foresees a first hike to occur in December (Exhibit 1), issuance in the money markets suggests that participants are expecting, or at least hedging against liftoff occurring during September (our house view). Indeed, issuers have been pressured to cheapen levels across tenors, with the sweet spot for fixed issuance hovering around 3m. Furthermore, FRN issuance surged during the month of May, particularly in the 6m sector of the curve – right over the September FOMC meeting.

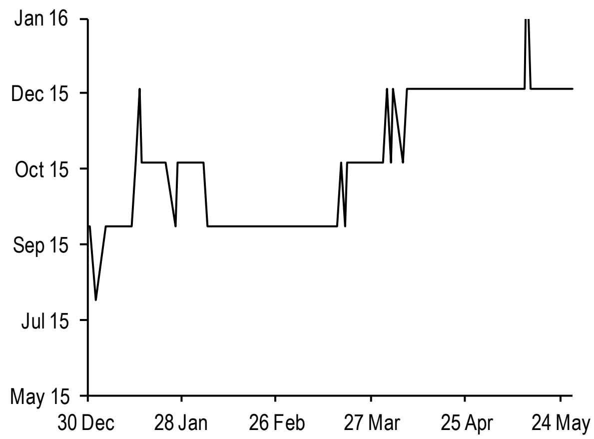
In other news, Wells Fargo recently became the latest large MMF complex to come forward with a preliminary announcement concerning its strategy for dealing with money market fund reform rules[1]. In short, Wells made no major changes to its money fund lineup, and intends to continue to offer institutional prime and muni MMFs with a floating NAV once the final rules become effective. Additionally, the fund family announced that it does not intend to implement gates and fees for its government MMF products. Looking forward to the months to come, we expect to see more fund families come forward to address/elaborate on their respective strategies.

Regarding Fed operations, on May 20th the Fed announced its plans to conduct term RRP operations over each quarter-end through the remainder of 2015[2]. For the end of Q2, the Fed further indicated that it plans to offer at least $200bn in term RRP to supplement its overnight facility, whose current cap is set at $300bn. On balance, we think that the continuation of term RRP offerings around quarter-ends is a good thing for the money markets. During the two quarter-ends where the term facility has been offered, it has proved to be a viable source of backstop supply to money market funds and allowed money funds an option to get invested earlier.

Separately, on Thursday Moody's concluded its reviews on 13 global investment banking groups that covered over 1400 rated banking entities. The reviews were initiated in March

Exhibit 1: The OIS market continues to price in a December liftoff

First hike date inferred from 1-month OIS forwards*; FOMC meeting date



* Estimated as the FOMC meeting date for which forward 1-month OIS rates are above 34bp (which is taken from our framework for effective Fed funds assuming a 25bp wide RRP/IOER corridor; for details see Interest Rate Derivatives, *US Fixed Income Markets 2015 Outlook*, 11/26/14)

1 https://www.wellsfargoadvantagefunds.com/assets/pdf/fmg/icm/Reform-20150521.pdf
2 http://www.newyorkfed.org/markets/opolicy/operating_policy_150520.html

as part of a broader effort to reflect Moody's new banking methodology as well as revisions in Moody's government assumptions for the banks. The entities reviewed include operating banks, holding companies, subsidiaries, special purposes purpose conduits, branches and other entities for which Moody's has assigned ratings to at least one debt class. Rating actions varied with the entity and the debt class within each global investment banking group. As banks in the money markets can issue debt across a range of platforms/entities, there are implications for both issuers and investors that participate in bank CP, CDs, ABCP, repo and short-term bonds. Given the comprehensive nature of the ratings actions, we'll provide a more thorough analysis in the near future.

1Q15 FDIC Quarterly Banking Update

This past Wednesday, the FDIC released its latest Quarterly Banking Profile (QBP) for 1Q15, providing us with insight into how regulations are impacting banks. As we noted in our 1Q15 Regulatory Update, this past quarter marked the beginning of some key regulations going into effect. Large US banks began complying with certain minimum capital requirements, publically disclosing their Supplementary Leverage Ratios, and maintaining a Liquidity Coverage Ratio of at least 80% of the target. For their part, their balance sheets have steadily evolved over the past couple of years in preparation for this. But more recently, we are starting to see a moderation in their regulatory driven activities. This dynamic was evident in the latest QBP.

- **HQLA.** Banks with assets >$250bn have been accumulating HQLA in their portfolios for the past few years. Over the past year, over 40% of the growth in their balance sheets were attributed to the rise of Level 1 HQLA, including Federal reserve balances of $190bn and US Treasuries of $155bn (Exhibit 2). Despite their low yields, banks have added to their stock of HQLA, a behavior most likely driven by their need to comply with LCR.

  However, during 1Q15 Level 1 HQLA balances only grew by $47bn, substantially lower than their quarterly growth average of $86bn over the past year. A closer look at the components show that the reduction in growth in Treasuries was particularly dramatic, rising only by $4bn in 1Q15 which represents less than 3% of the total growth in Treasuries over the past year. This decline was likely due to the fact that most large banks are already compliant with LCR, leading to a moderation in HQLA accumulation this past quarter. As such, while large US banks have been a material buyer of Treasuries in 2014, we suspect their demand will be much more marginal throughout this year. That said, all of this could change as the Fed drains reserves. To the extent banks have been using Fed reserves as HQLA to comply with LCR (which we believe many large banks are), one day they will have to find substitutes once the Fed begins to drain reserves as part of its policy normalization. This potentially increases the demand for Treasuries down the road.

- **Deposits.** Over the past few years, large banks have steadily morphed their balance sheets to be less short-term wholesale funded and more stable funded. Indeed, the latest FDIC data show that a significant portion of the growth in large banks' balance sheets over the past year was funded by deposits ($592bn) and other borrowed funds which typically include long-term unsecured debt ($63bn). Meanwhile, Fed funds and repo declined by $44bn.

Exhibit 2: The latest FDIC Quarterly Banking Profile reveals that large sized banks are beginning to moderate their prior regulatory-driven activities

Summary of year-over-year and quarter-over-quarter changes in various assets of US banks broken up by asset size of institution; units as indicated

	1Q15 Balances ($bn)				1Q15 / 4Q14: QoQ Change ($bn)				1Q15 / 1Q14: YoY Change ($bn)			
Item	All FDIC-insured Banks	Banks Greater than $250bn	Banks with $50bn - $250bn	Banks Less than $50bn	All FDIC-insured Banks	Banks Greater than $250bn	Banks with $50bn - $250bn	Banks Less than $50bn	All FDIC-insured Banks	Banks Greater than $250bn	Banks with $50bn - $250bn	Banks Less than $50bn
No. of Banks	6,419	9	28	6,382	6,419	9	28	6,382	6,419	9	28	6,382
Total Asset	**15,778**	**8,194**	**3,056**	**4,529**	**224**	**92**	**162**	**(30)**	**868**	**794**	**(81)**	**155**
Cash & Balances from depository institutions	**2,004**	**1,359**	**303**	**343**	**83**	**49**	**18**	**16**	**189**	**220**	**(33)**	**2**
Cash items in the process of collection	*130*	*71*	*24*	*35*	*(6)*	*(5)*	*1*	*(2)*	*(14)*	*(3)*	*(6)*	*(5)*
Balances due from depository institutions in US	*110*	*53*	*8*	*49*	*17*	*7*	*2*	*8*	*18*	*39*	*(28)*	*7*
Balances due from foreign banks	*269*	*237*	*27*	*4*	*6*	*4*	*2*	*(0)*	*(9)*	*(5)*	*(2)*	*(1)*
Balances due from FRB	***1,446***	***997***	***243***	***205***	***65***	***43***	***13***	***9***	***198***	***190***	***3***	***5***
Total Securities	**3,267**	**1,700**	**627**	**941**	**48**	**14**	**29**	**5**	**213**	**215**	**(2)**	**(0)**
US Treasury securities	***409***	***298***	***60***	***50***	***3***	***4***	***(5)***	***4***	***171***	***155***	***(7)***	***23***
US Government Agency Securities	***1,805***	***771***	***406***	***628***	***58***	***31***	***25***	***2***	***86***	***86***	***18***	***(19)***
Securities issued by states & political subdivisions	*323*	*135*	*17*	*171*	*8*	*5*	*4*	*(2)*	*23*	*16*	*5*	*3*
Other domestic debt securities	*489*	*292*	*116*	*80*	*(13)*	*(15)*	*2*	*0*	*(26)*	*(6)*	*(12)*	*(7)*
Privately issued RMBS	*113*	*78*	*18*	*17*	*(14)*	*(11)*	*(2)*	*(1)*	*(22)*	*(9)*	*(8)*	*(5)*
CMBS	*71*	*52*	*12*	*7*	*1*	*0*	*1*	*(0)*	*5*	*3*	*3*	*(0)*
ABS	*157*	*71*	*66*	*20*	*(4)*	*(6)*	*2*	*0*	*(17)*	*(12)*	*(5)*	*(0)*
Structured Financial Products	*84*	*73*	*4*	*6*	*2*	*2*	*(0)*	*0*	*13*	*13*	*(0)*	*(0)*
Other domestic debt securities	*65*	*18*	*16*	*30*	*1*	*(0)*	*1*	*0*	*(5)*	*(2)*	*(1)*	*(2)*
Foreign debt securities	*230*	*199*	*26*	*5*	*(6)*	*(9)*	*3*	*1*	*(36)*	*(34)*	*(3)*	*1*
Equity securities	*12*	*4*	*1*	*6*	*(2)*	*(2)*	*0*	*(1)*	*(5)*	*(2)*	*(2)*	*(1)*
Fed Funds sold and reverse repo	**379**	**312**	**37**	**30**	**21**	**11**	**9**	**2**	**(36)**	**(24)**	**(1)**	**(11)**
Net Loans and Leases	**8,241**	**3,545**	**1,769**	**2,928**	**54**	**7**	**94**	**(47)**	**443**	**309**	**(31)**	**165**
Trading account assets	**662**	**590**	**65**	**6**	**6**	**3**	**3**	**1**	**63**	**56**	**7**	**1**
Bank premises and fixed assets	**120**	**43**	**19**	**58**	**(1)**	**(1)**	**0**	**(0)**	**(1)**	**2**	**(3)**	**0**
Other Real Estate Owned	**19**	**5**	**1**	**13**	**(3)**	**(1)**	**(0)**	**(1)**	**(9)**	**(4)**	**(1)**	**(4)**
Goodwill and other intangibles	**356**	**204**	**86**	**66**	**(4)**	**(4)**	**1**	**(1)**	**(10)**	**4**	**(17)**	**3**
All other assets	**730**	**436**	**149**	**145**	**20**	**15**	**8**	**(3)**	**16**	**16**	**0**	**(1)**
Total Liabilities	**14,006**	**7,346**	**2,660**	**4,001**	**194**	**82**	**138**	**(26)**	**778**	**708**	**(65)**	**134**
Total Deposits	**11,958**	**6,077**	**2,270**	**3,611**	**194**	**76**	**118**	**0**	**641**	**592**	**(77)**	**125**
Total Wholesale Funding	2,048	1,269	389	390	(1)	7	19	(27)	137	116	13	9
Fed funds purchased and repo	***317***	***184***	***40***	***93***	***(1)***	***6***	***(0)***	***(7)***	***(74)***	***(44)***	***(20)***	***(9)***
Trading liabilties	*307*	*274*	*30*	*3*	*12*	*5*	*6*	*1*	*87*	*77*	*8*	*1*
Other borrowed funds	***964***	***505***	***221***	***239***	***(22)***	***(14)***	***9***	***(17)***	***102***	***63***	***23***	***16***
Subordinated debt	*95*	*58*	*32*	*5*	*(3)*	*(2)*	*(1)*	*0*	*(1)*	*(2)*	*0*	*1*
All other liabilities	*365*	*248*	*67*	*50*	*14*	*11*	*6*	*(3)*	*23*	*21*	*1*	*0*

Source: FDIC, J.P. Morgan

Yet, this shift towards more stable sources of funding also appears to be moderating recently, particularly with respect to deposits. During 1Q15 deposit balances only grew by $76bn, representing only 22% of the growth in deposits over the past year. This is not a surprise as not all deposits are created equal under the new regulatory regime. In fact, one bank announced in late February that they are actively shedding non-operational institutional deposits, the most punitive type of deposit on balance sheet. Ironically, by our estimates, these non-operating institutional depostis actually increased during the first quarter, probably as a result of volatility in the capital markets (Exhibit 3). Going forward, we suspect that large banks would be aversed to such market-related increases.

Against this backdrop, mid-sized financial institutions (assets between $50-$250bn) seem to be picking up the slack large banks are leaving behind. By design, they are less impacted by the macroprudential regulations as policymakers view them as less risky, less levered and less systemic. As a result, mid-sized institutions have been able to absorb what has been pushed out of large banks. This was particularly evident in 1Q15 when deposits and loans of mid-sized banks grew by $118bn and $94bn respectively. On the other hand, small

Exhibit 3: Large banks are looking to shed non-operational institutional deposits

Breakout of domestic deposits among US banks

		1Q15 / 4Q14: QoQ Chg ($bn)			
		Banks with Total Assets...			
($bn)		Greater than $250BN	$50-$250BN	Less than $50BN	Total
Total Assets		92	162	(30)	224
Total Domestic Deposits*		81	123	6	210
Retail**	Transactional***	4	2	8	14
Retail	Non-Transactional	64	80	(15)	128
Institutional	Transactional	(8)	(4)	(12)	(24)
Institutional	***Non-Transactional***	***33***	***46***	***33***	***112***

Source: FFIEC 031, FFIEC 041, J.P.Morgan

*Excludes deposits in foreign offices

**Retail deposits include deposits related to personal, household, or family activities of both farm and nonfarm individuals and to the business activities of sole proprietorships. Institutional deposits include deposits that are not retail such as those of corporations, mutual funds and other nondepository financial institution, US depository institutions, foreign depository institutions, government entities, official institutions, etc.

**Transactional deposits include deposits from which the depositor or account holder is permitted to make transfers or withdrawals by negotiable or transferable instruments, payment orders of withdrawal, telephone transfers, or other similar devices for the purpose of making third party payments or transfers to third persons or others, or from which the depositor may make third party payments at an ATM, a remote service unit, or another electronic device, including by debit card. Non-transaction deposits are deposits that are not considered transactional

US banks did not benefit from the migration out of largest banking group. In fact, they saw their balance sheet decreased by $30bn in 1Q15.

To be sure, bank balance sheets will continue to evolve as more Basel regulations come into effect. However, for large banks, we do not think the composition of their balance sheets (cash versus securities versus loans) will change much more now that they are compliant with LCR. Instead, we think the focus will be more on optimizing their existing balance sheets to minimize cumulative regulatory burdens. To that end, it's unlikely that their balance sheets will significantly grow going forward. For mid-sized banks who are less impacted by regulations, there is more potential for growth. For now, they have been able to absorb some of the gap left behind by large banks. However, given the various regulatory constraints, it's unclear how much longer this trend will continue in the future.

Coming Attractions

- The Fed will release its Beige Book on 6/3.
- May's employment report will be released this Friday, 6/5. Our US economist is calling for an increase of 225k for non-farm payrolls and for the unemployment rate to print at 5.4%.
- The FOMC will conduct its June meeting from 6/16 to 6/17. The meeting will be accompanied by a press conference and updated economic projections.

Trading Themes

We expect short-term rates to drift upwards in 2015 in response to the beginning of a Fed tightening cycle. However, the details of how monetary policy is implemented and impact of regulations will have different effects on the various short term interest rates.

Additionally, given the immense demand for short-term product and the lack of investible supply, we do not foresee spreads on money market instruments widening significantly this year, and hence do not expect high returns to be found in the money market space in general. With the prospect of rising front-end rates, we believe that floating rate instruments will perhaps offer the best relative value as the year progresses.

- **Overweight Treasury coupons versus bills**

  In spite of the immense demand for high-quality liquid assets, Treasury coupons continue to trade cheap to bills. Although the current spread is only 1-3bp, it's possible that this spread could widen as a large amount of Treasury coupons are expected to roll into the 2a-7 space. In the coming year, we expect 2a-7 Treasury coupon balances to increase by $191bn while bills to increase a moderate $17bn.

- **Overweight collateralized CP versus bank unsecured CP and ABCP**

  Collateralized CP programs are structured such that CP notes issued are guaranteed by the sponsoring bank. This asset class is an attractive way to gain direct bank exposure than they would otherwise via CP/CDs and ABCP while picking up 2-7bp in yield.

- **For Moody's matrix considerations, overweight partially supported ABCP programs with long-term sponsor ratings below Aa3. Conversely, overweight fully supported ABCP with long-term sponsor ratings above Aa3 versus partially supported programs.**

  Under the Moody's matrix MMF rating methodology, funds are rated on the basis of the tenor and credit rating assigned their portfolio's underlying assets. In the case of ABCP, partially supported programs by default receive a Moody's LT rating of Aa3, whereas fully supported programs receive the LT rating of the program's sponsor.

- **Overweight front-end floating versus fixed rate instruments**

  We believe that floating rate instruments offer better relative value over their fixed rate counterparts as Libor and other short-term rates begin to drift upwards in response to MMF reform-related flows and a Fed tightening in 2015.

- **Overweight Financial bonds vs. Non-Financials**

  We expect bank spreads to outperform non-Bank in 2015 as rising rates is a positive for bank earnings. Also, banks are not at risk for M&A and higher leverage, they are actually de-leveraging to meet capital requirements. We believe these factors will more than offset the increased bank bond supply that will be issued in the next few years to meet Total Loss Absorbing Capital (TLAC rules). (*See High Grade Outlook*)

- **Overweight 1-3y AAA credit card ABS versus agencies**

  Both asset classes are rated AAA, but ABS trade much wider than agencies do. Currently, AAA-rated 2y credit card ABS is offered at the equivalent of swaps +25bp versus 2y agency at swaps -15bp. Furthermore, our Agency strategists note that losses on credit card ABS master trusts are at record lows, while credit support levels are at record highs. The credit card ABS sector is fundamentally cheap and least vulnerable to technical volatility. Consequently, ABS should provide a safe haven to investors looking for relatively higher-yielding cash surrogates. (See *ABS Outlook*)

- **Consider senior tranches from off-the-run subprime auto ABS issuers for spread pick-up**

  Senior tranches from off-the-run subprime auto ABS issuers offer spreads of up to 100bp for very short (<2y WAL) bonds that are highly rated (from AAA down to A). That is a significant concession versus comparable short high investment grade credits. Additionally, our Agency strategists believe these senior bonds are very well protected structurally and investors are being very well compensated for the illiquidity and credit risk. (See *ABS Outlook*)

- **Front-end steepeners are likely to perform well over a range of probabilities across spanning interest rate scenarios, as are intermediate belly-cheapening flys**

  Our framework for identifying trades that are "convex" over a range of probability distributions on Fed rate hike scenarios suggest that front-end steepeners (2s/5s, 3s/5s, White/ Blues, Reds/Greens, and Reds/Blues) and intermediate belly-cheapening flys (2s/5s/10s, 3s/7s/10s) are likely to do well early next year. (See *Interest Rate Derivatives Outlook*)

- **Look for wider swap spreads across the curve; front and intermediate spreads are likely to lead the widening**

  Spreads across the curve appear tight; front-end spreads should widen as a result of lower front-end Treasury supply and regulatory demand. Intermediate spreads should widen on the back of increasing yields and a widening mortgage basis. Long-end spreads will likely widen given our forecasts for reduction in hedging needs from VA accounts and a flattening yield curve. (See *Interest Rate Derivatives Outlook*)

- **Buy Libor basis wideners and FF/Libor tighteners; be aware of the impact of new reserve draining initiatives and regulations**

  A range of reforms like NSFR and MMF rules are likely to result in wider Libor bases over the course of next year. While many reforms and Fed initiatives point to tightening of the FF/Libor basis, the Fed is still tinkering with various reserve-draining mechanisms—the efforts bear watching as they could have a big impact on this basis. (See *Interest Rate Derivatives Outlook*)

- **Maintain 1Yx1Y FF/Libor basis narrowers, but hedge with FRA/OIS spreads**

  We recommend hedging the IMM2 FRA/OIS exposure of this trade given the risks stemming form Greek negotiations.

– Continue to pay Libor in $1bn notional of a 1Yx1Y Fed Funds/Libor basis swap and buy $4bn notional of Sep 2015 FRA-OIS spreads @ 15bp as a hedge to the trade. (*US Fixed Income Markets Weekly*, 4/10/15). P/L since inception: loss of 0.9bp of yield.

- **Maintain EDM5/Z5 steepeners**

– Stay long1000 EDM5 contracts versus staying short 1000 EDZ5 contracts (*Interest Rate Derivatives*, 12/19/14). P/L since inception: loss of 18.3bp of yield.

- **Maintain synthetic 2Yx1Y forward Treasury/OIS narrowers**

– Stay $1bn notional of 1% Mar 2018s, sell $1bn notional of 0.5% Mar 2017s and continue to pay fixed in $982mn notional of a 3/31/2017x3/15/2018 OIS swap (*Interest Rate Derivatives*, 3/27/15). P/L since inception: profit of 0.1bp of yield.

- **Over the next quarter, overweight short-lockout, short-maturity callables versus duration-matched bullets to enhance yield**

  Short-dated callables offer the highest call probability and largest rate and rate volatility breakevens. However, a sell-off in front-end yields ahead of the Fed hike and pickup in volatility in the front end of the curve could lead to underperformance beyond 1Q15. (*See Agencies Outlook*)

- **Remain neutral on European SSAs versus Agencies**

  USD-denominated EIB/KfW issues have outperformed US Agencies on asset swap over the last month. However, this outperformance is unlikely to reverse given ECB QE and the eventual Fed rate hike. Given competing factors, we turn neutral on USD-denominated EIB/KfW debt versus US Agencies on asset swap.

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Forecasts

Interest Rates

	Current 5/29/2015	2Q15 6/30/2015	3Q15 9/30/2015	4Q15 12/31/2015
Rates				
Fed Funds Effective	0.12	0.12	0.35	0.60
3m Libor*	0.28	0.26	0.50	0.80
1m bills	0.01	0.04	0.03	0.10
3m bills	0.01	0.05	0.05	0.12
UST 2y	0.60	0.75	1.05	1.25
UST 3y	0.92	1.15	1.40	1.55
UST 5y	1.47	1.65	1.80	1.95
UST 7y	1.84	1.95	2.10	2.25
UST 10y	2.09	2.20	2.25	2.40
UST 30y	2.85	2.95	2.95	3.00
2y swap	0.84	0.99	1.28	22
5y swap	1.61	1.79	1.95	16
10y swap	2.18	2.32	2.38	13
30y swap	2.61	2.75	2.80	-10
Spreads				
3m TED	27	21	45	68
2y Swap Spread	24	24	23	22
5y Swap Spread	14	14	15	16
10y Swap Spread	9	12	13	13
30y Swap Spread	-24	-20	-15	-10

*Libor estimates are based on the current BBA Libor panel formulation and don't account for pending UK FSA reforms.

Economics

%ch q/q, saar, unless otherwise noted

	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	2015*	2016*
Gross Domestic Product										
Real GDP	4.6	5.0	2.2	-0.7	2.0	2.5	2.5	2.5	1.6	2.5
Final Sales	3.2	5.0	2.3	-1.1	2.4	2.6	2.5	2.6	1.6	2.5
Domestic Final Sales	3.4	4.1	3.3	0.8	2.4	3.0	2.9	2.9	2.3	2.7
Business Investment	9.7	8.9	4.7	-2.8	1.3	5.4	4.7	4.9	2.1	4.9
Net Trade (% contribution to GDP)	-0.3	0.8	-1.0	-1.9	0.0	-0.4	-0.4	-0.3	-0.7	-0.2
Inventories (% contribution to GDP)	1.4	-0.1	-0.1	0.3	-0.4	-0.1	0.0	-0.1	-0.1	0.0
Prices and Labor Cost										
Consumer Price Index	2.4	1.2	-0.9	-3.1	3.1	2.5	2.0	2.0	1.1	2.0
Core	2.2	1.4	1.5	1.7	2.5	2.0	2.0	2.0	2.1	2.0
Producer Price Index	2.2	1.2	-0.6	-4.8	2.2	2.0	2.0	2.0	0.3	2.0
Core	1.8	2.0	1.6	-0.5	1.3	1.5	1.7	1.7	1.0	1.7
Employment Cost Index	3.0	2.7	2.0	2.6	2.8	2.8	2.8	2.9	2.7	3.2
Unemployment Rate (%, sa)	6.2	6.1	5.7	5.6	5.3	5.2	5.1	4.9	-	-

* Q4/Q4 change

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Forecasts (continued)

Money Market Supply

($bn)	YE 2013 12/31/2013	YE 2014 12/31/2014	Latest 4/30/2015	YE 2015* 12/31/2015	2015 Y/Y Exp. $ Change
T-Bills	1,591	1,458	1,433	1,475	17
Treasury Coupon	1,567	1,608	1,694	1,825	218
Treasury FRNs	N/A	164	220	328	164
Dealer Repo*	2,550	2,297	2,195	2,300	3
Fed Repo	198	397	130	300	(97)
Discos	509	609	583	529	(80)
Agency Coupons	427	363	338	429	66
Dom Fin. CP	90	97	99	86	(11)
For Fin. CP	402	374	420	376	2
Non Fin CP	196	227	261	290	63
ABCP	263	231	226	191	(40)
Bonds <1y	305	355	335	358	3
Total	**8,905**	**8,999**	**8,772**	**9,298**	**300**
Total (ex Fed)	**8,707**	**8,602**	**8,641**	**8,998**	**397**
Total (ex Fed, ex Treas.)	**5,548**	**5,372**	**5,295**	**5,370**	**(2)**

**The repo balance for YE 2012 is adjusted to reflect the new reporting changes to NY Fed's dealer financing report. We applied an average percentage of the overall repo market that consists of repo transactions only and applied that to what was reported for year-end.
***The repo balance for YE 2013 and YE 2014 represents the average of December repo outstandings in order to seasonally adjust data for technical factors.

Long-term (>1Y) net issuance

($bn)	YE 2013 12/31/2013	YE 2014 12/31/2014	YE 2015* 12/31/2015	2014 Y/Y $ Change	2015 Y/Y Exp. $ Change
IG corporates	393	433	415	40	(18)
HY corporates	154	145	150	(9)	5
EM Corporates	254	232	202	(22)	(30)
EM Sovereign	48	40	10	(8)	(30)
Municipals	(38)	(49)	(53)	(11)	(4)
Non-Agency MBS	(154)	(94)	(67)	60	27
Agency MBS	281	85	100	(196)	15
CMBS	(11)	(1)	(14)	10	(13)
ABS	12	55	25	43	(30)
CLOs	16	66	40	50	(26)
Agency Debt	(117)	(154)	(50)	(37)	104
Treasuries	849	783	624	(66)	(159)
Total	**1,686**	**1,542**	**1,382**	**(144)**	**(160)**
Total ex-Tsy	**838**	**759**	**758**	**(79)**	**(1)**

*Note: YE 2015 J.P. Morgan forecasts
Source: J.P. Morgan, Trepp, Bloomberg, S&P, Thomson Reuters

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New Issues

Corporates

Issue Date	Issuer	Ticker	Moody's	S&P	Amount	Coupon	Maturity	Term	12m	24m	36m	60m
27-May	XCEL ENERGY INC	XEL	A3e	BBB+	250	1.200 %	6/1/2017	2		+58		
27-May	UBS AG STAMFORD CT	UBS	A2e	A	750	FRN	6/1/2017	2		L+56		
27-May	UBS AG STAMFORD CT	UBS	A2e	A	1,250	1.375 %	6/1/2017	2		+80		
27-May	UBS AG STAMFORD CT	UBS	A2e	A	250	FRN	6/1/2020	5				L+85
23-Mar	UBS AG STAMFORD CT	UBS	A2 /*-	A	750	2.350 %	3/26/2020	5				+90
27-May	PNC BANK NA	PNC	A2	A	550	FRN	6/1/2018	3			L+42	
27-May	PNC BANK NA	PNC	A2	A	1,300	1.600 %	6/1/2018	3			+65	
27-May	PNC BANK NA	PNC	A2	A	750	2.300 %	6/1/2020	5				+83
27-May	KEY BANK NA	KEY	A3	A-	250	FRN	6/1/2018	3			L+52	
27-May	KEY BANK NA	KEY	A3	A-	750	1.700 %	6/1/2018	3			+75	
28-May	ABN AMRO BANK NV	ABNANV	A2e	A	500	1.800 %	6/4/2018	3			+88	
28-May	ABN AMRO BANK NV	ABNANV	A2e	A	1,000	2.450 %	6/4/2020	5				+100
28-May	COMERICA BANK	CMA	A3	A	500	2.500 %	6/2/2020	5				+100
29-May	BANK OF AMERICA CORP	BAC	A1e	A	1,000	FRN	6/5/2017	2		L+45		
29-May	BANK OF AMERICA CORP	BAC	A1e	A	1,750	1.750 %	6/5/2018	3			+85	

ABS

Issue Date	Issuer	Ticker	Moody's	S & P	Amount	Life	Spread	Benchmark	Series	Class	Market	Deal Type
21-May	Chase Issuance Trust	CHAIT	Aaa	AAA	1,000	1.96	25	1 Mo. LIBOR	2015-A6	A	US Public	CrCrds - Bank
21-May	Nelnet Student Loan Trust	NSLT	Aaa		83	1.25	30	1 Mo. LIBOR	2015-3	A-1	US Private	Student Loan
21-May	Nelnet Student Loan Trust	NSLT	Aaa		270	7.18	62	1 Mo. LIBOR	2015-3	A-2	US Private	Student Loan
21-May	Nelnet Student Loan Trust	NSLT	Aaa		41	16.01	108	1 Mo. LIBOR	2015-3	A-3	US Private	Student Loan
21-May	Nelnet Student Loan Trust	NSLT	A3		8	16.58	150	1 Mo. LIBOR	2015-3	B	US Private	Student Loan
28-May	Ally Master Owner Trust	AMOT	Aaa		675	2.95	45	Swap - Int	2015-3	A	US Public	Other - Floorplans
28-May	California Republic Auto Receivables Trust	CRART		A-1+	54	0.27			2015-2	A-1	US Public	Auto - P
28-May	California Republic Auto Receivables Trust	CRART		AAA	100	0.95	40	EDSF	2015-2	A-2	US Public	Auto - P
28-May	California Republic Auto Receivables Trust	CRART		AAA	104	2.00	46	Swap	2015-2	A-3	US Public	Auto - P
28-May	California Republic Auto Receivables Trust	CRART		AAA	99	3.37	48	Swap	2015-2	A-4	US Public	Auto - P
28-May	California Republic Auto Receivables Trust	CRART		A	22	4.28	105	Swap	2015-2	B	US Public	Auto - P
28-May	California Republic Auto Receivables Trust	CRART		BBB	10	4.28	215	Swap	2015-2	C	US Public	Auto - P

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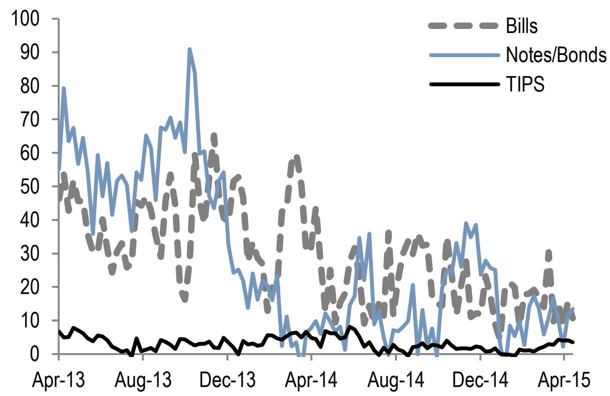
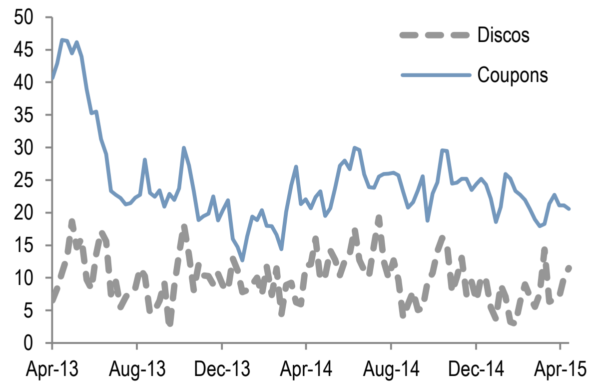
Dealer Net Positions

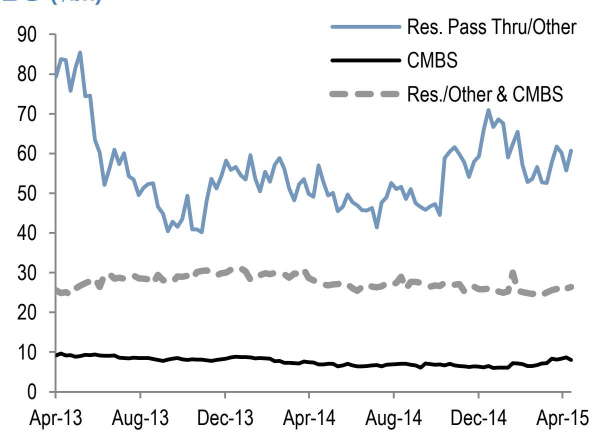
Government ($bn)



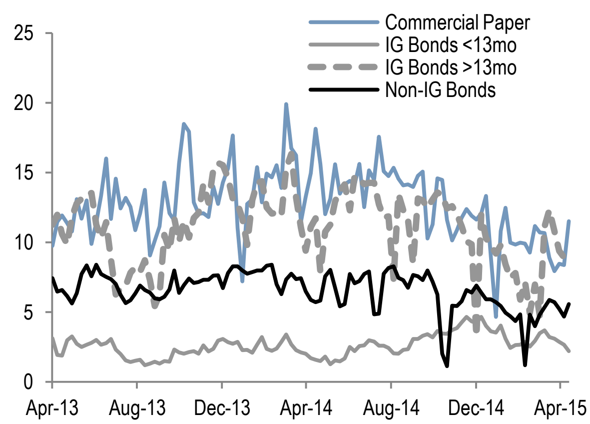
Agency ($bn)



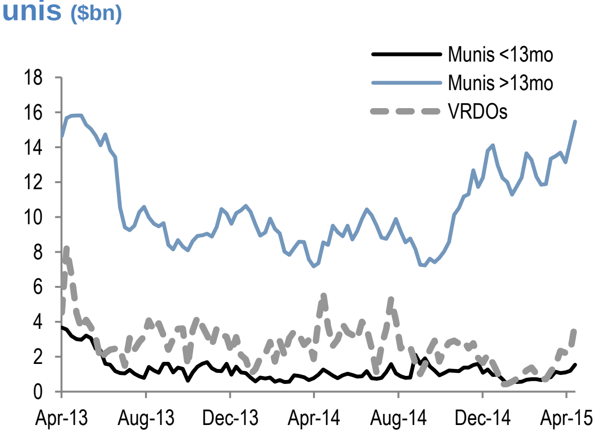
MBS ($bn)



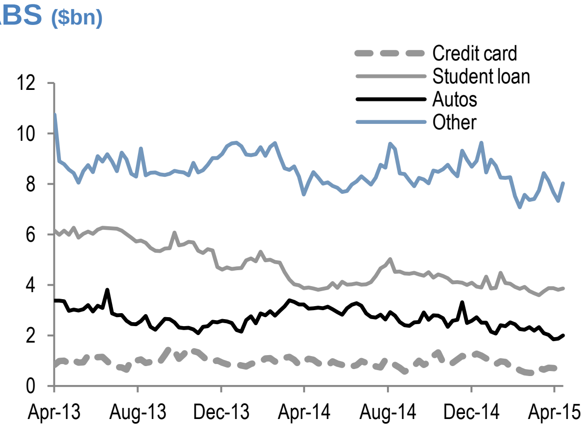
Corporates ($bn)



Munis ($bn)



ABS ($bn)



Source: Federal Reserve

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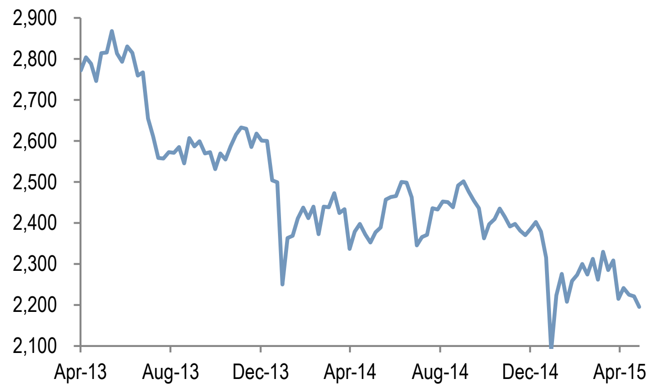
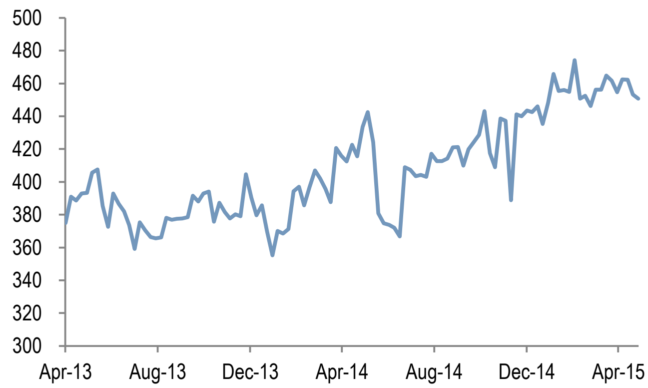
Repo

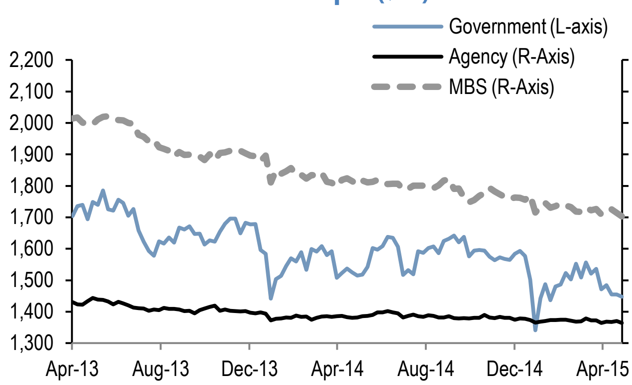
Total Repo Outstanding ($bn)



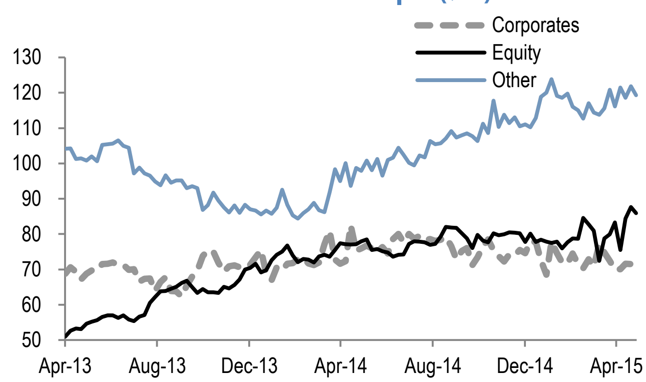
Total Securities Lending Outstanding ($bn)



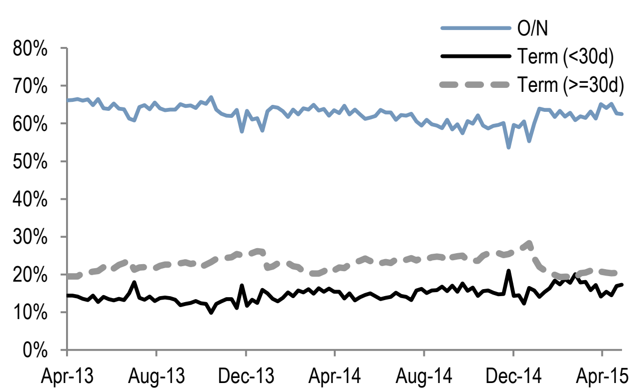
Traditional Collateral Repo ($bn)



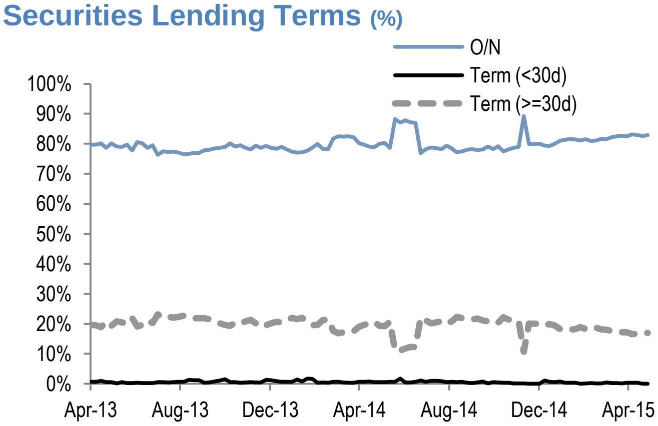
Non-Traditional Collateral Repo ($bn)



Repo Terms (%)



Securities Lending Terms (%)



Source: Federal Reserve

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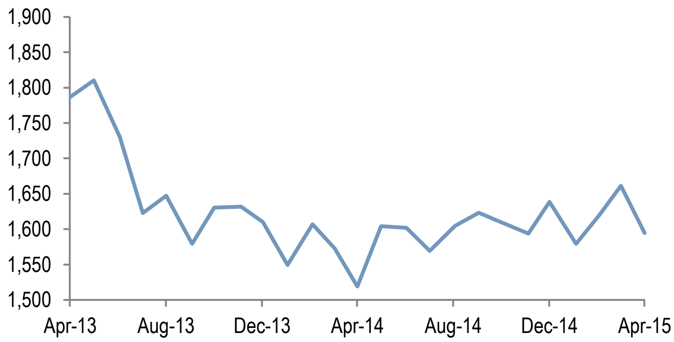
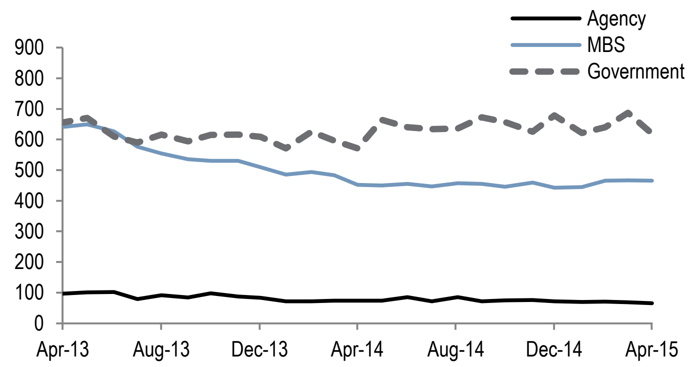
Repo (continued)

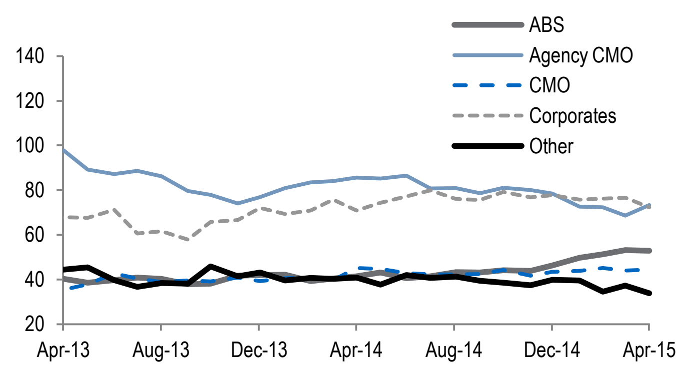
Total Tri-Party Outstanding ($bn)



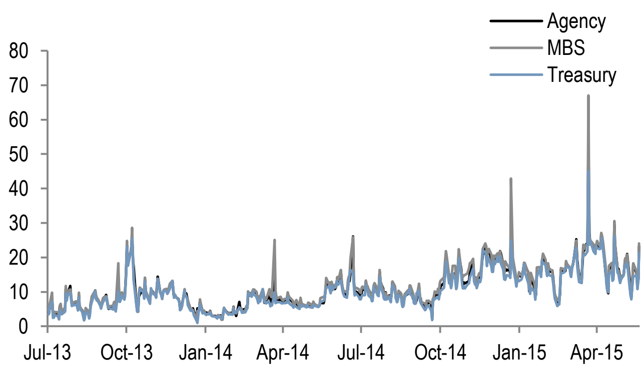
Tri-Party Traditional Collateral ($bn)



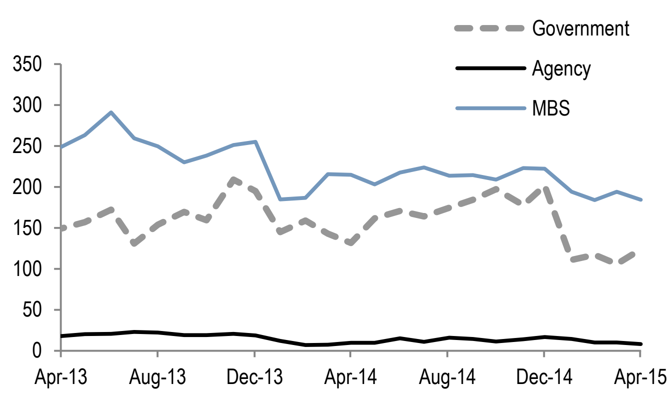
Tri-Party Non-Traditional Collateral ($bn)



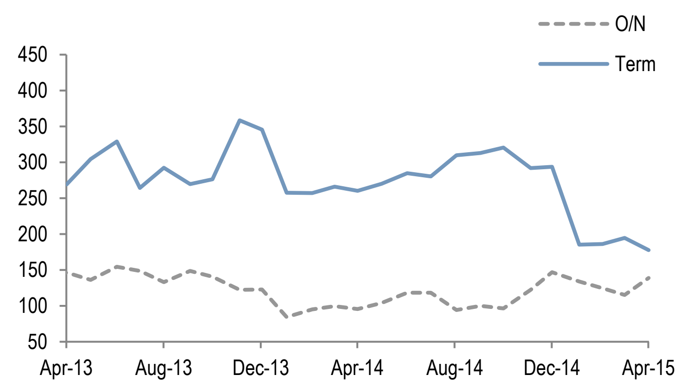
GCF rates (bp)



GCF Collateral ($bn)



GCF Term Composition ($bn)



Source: Federal Reserve, DTCC

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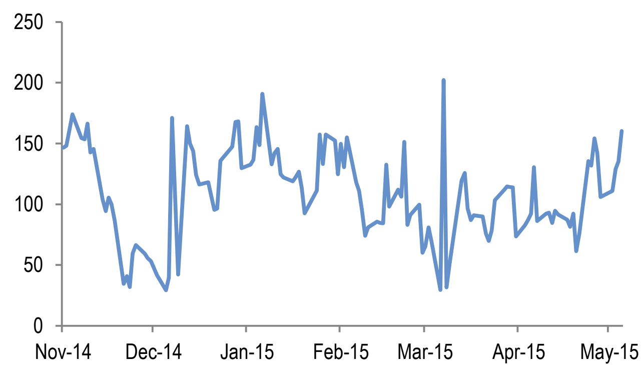
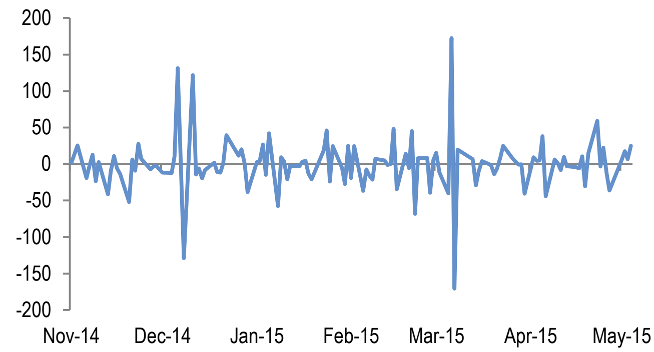
Fed Overnight Reverse Repo

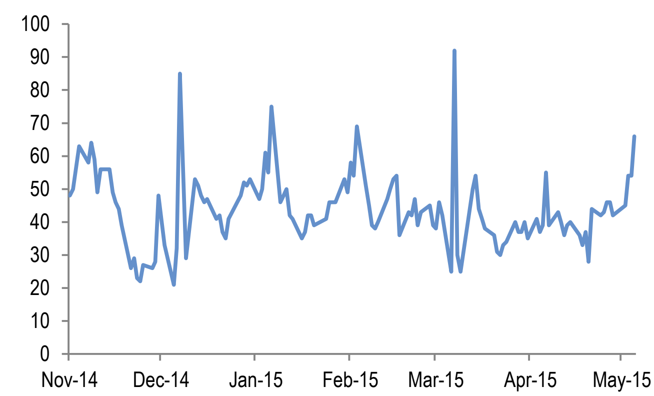
Accepted Amount ($bn)



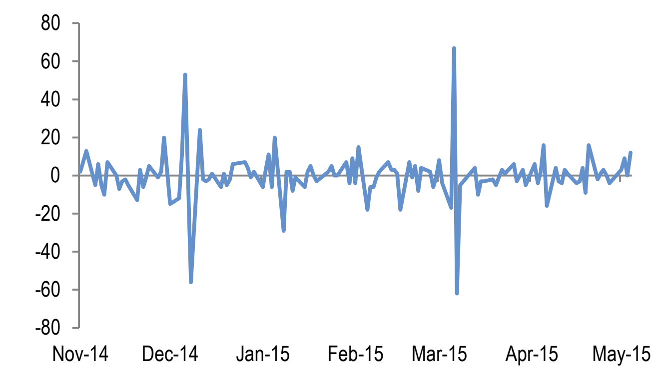
Accepted Amount: Daily Change ($bn)



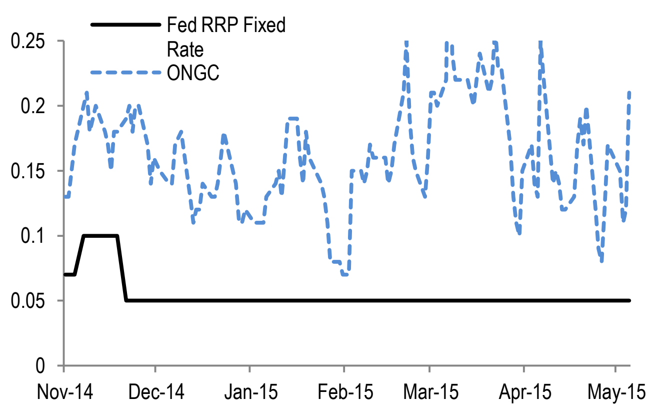
Number of Bidders



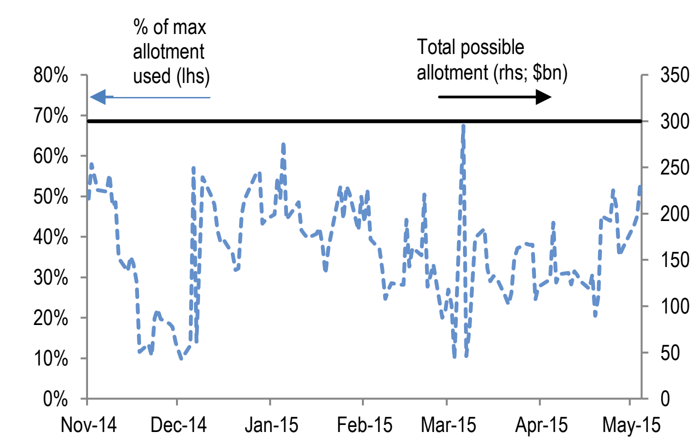
Number of Bidders: Daily Change



ONGC vs RRP fixed rate (%)



Max Allotment Used (%)



Source: Federal Reserve

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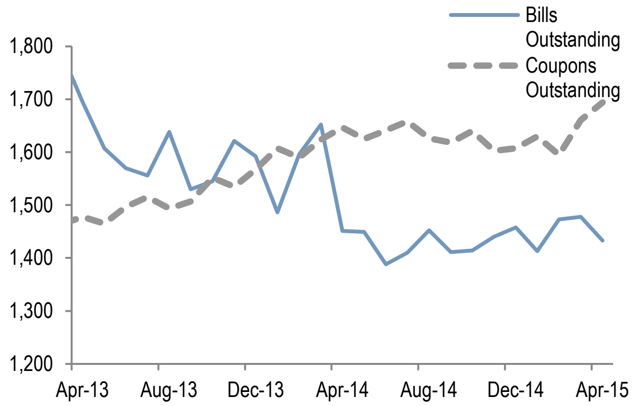
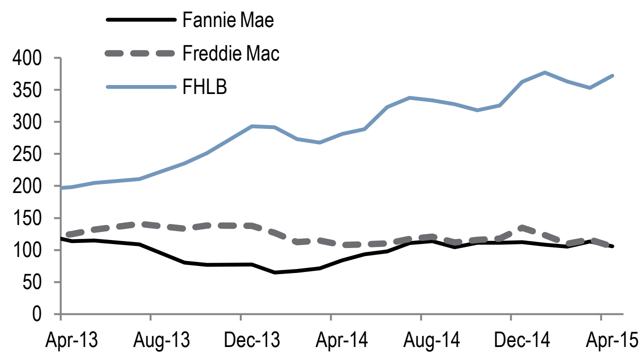
T-Bills

Bills and Coupons Outstanding ($bn)

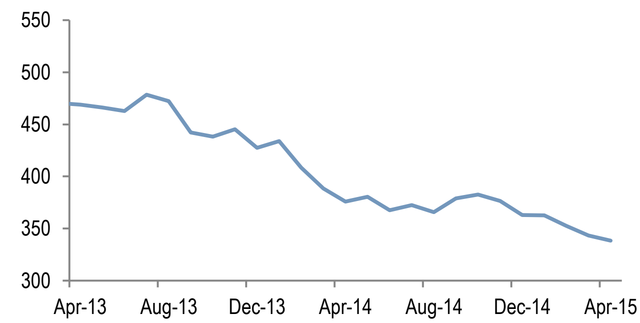


Agency Debt

Discount Notes Outstanding ($bn)

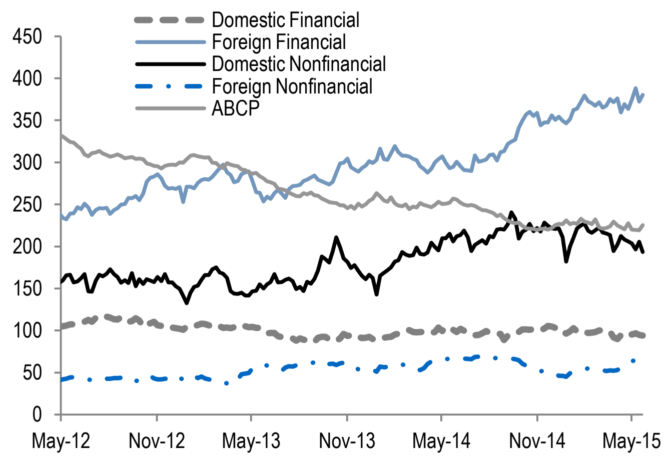


Coupons Outstanding ($bn)

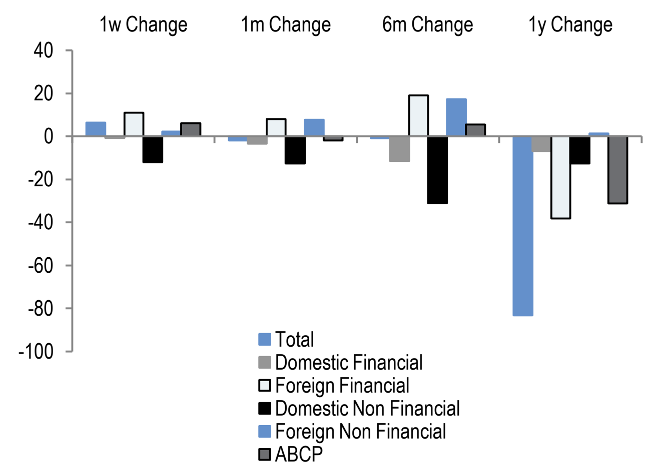


Commercial Paper

Outstanding ($bn)



Change ($bn)



Source: Federal Reserve, US Treasury, J.P. Morgan estimates

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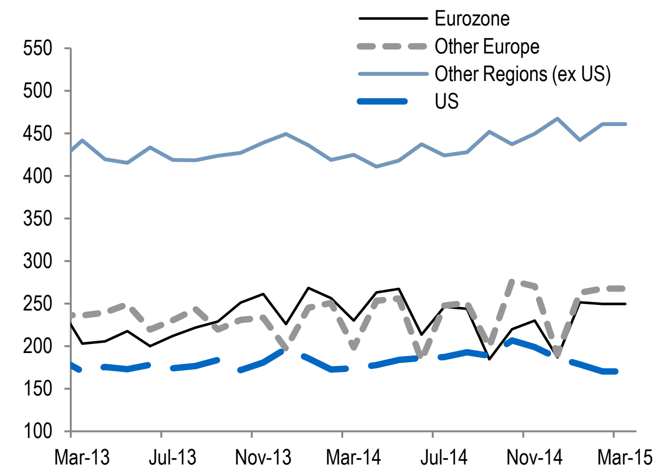
Money Market Funds

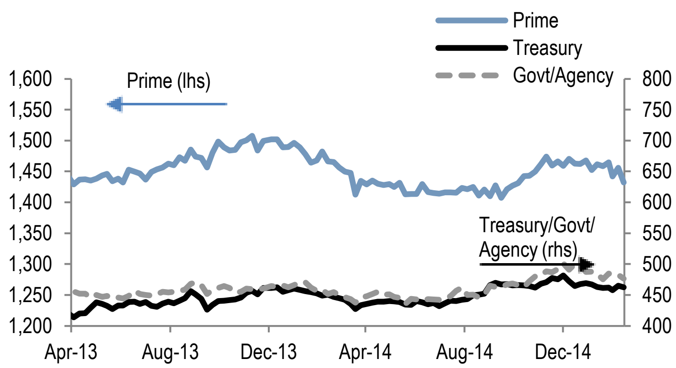
Prime MMF Asset Allocation

Issuer Type	Apr-15	% of total	m/m chg	chg since Dec-14	m/m % chg	% chg since Dec-14
Banks (US)	164	12%	6	(4)	4%	-3%
Banks (Eurozone)	204	15%	32	37	18%	22%
Banks (Other Yankee)	653	47%	44	27	7%	4%
ABCP/CCP (Banks)	62	4%	(6)	(6)	-9%	-9%
ABCP (Non-banks)	16	1%	(2)	1	-11%	5%
ABS issuers	2	0%	(0)	1	-2%	58%
Corporates (Financial)	10	1%	(2)	(3)	-13%	-25%
Corporates (Non-financial)	46	3%	5	10	12%	28%
US Treasuries	72	5%	(14)	(6)	-16%	-7%
US Agencies	79	6%	19	(18)	31%	-19%
US S&L Govt/Munis	14	1%	3	2	31%	16%
Foreign SSA	42	3%	1	8	3%	23%
Central Banks (Fed RRP)	24	2%	(148)	(155)	-86%	-86%
Other	1	0%	(1)	(3)	-42%	-67%
Total	**1,390**	**100%**	**(89)**	**(111)**	**-6%**	**-7%**

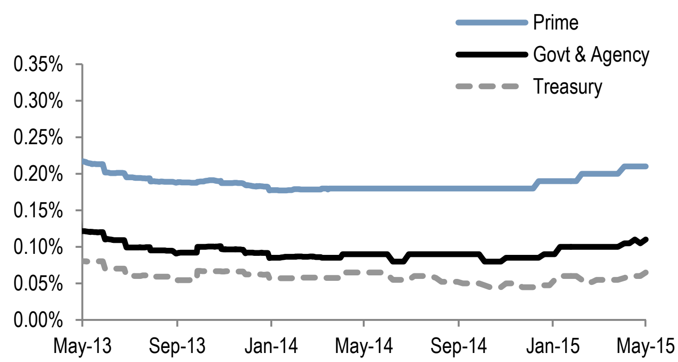
Geographical Composition (banks) ($bn)



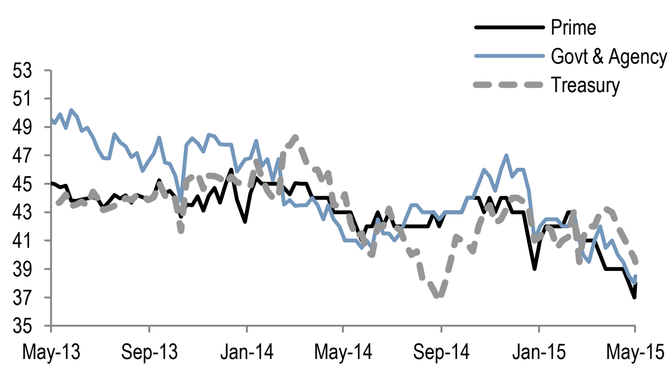
Assets Under Management ($bn)



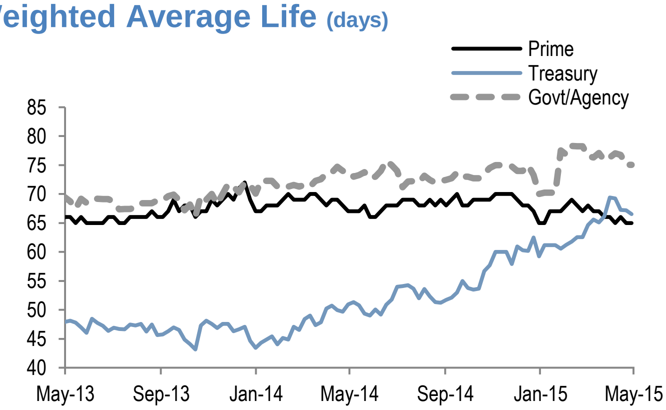
Gross Yield (%)



Weighted Average Maturity (days)



Weighted Average Life (days)



Source: iMoneyNet, fund holdings reports

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Liquidity Calendar

		Treasury	Fed	ECB	US	Europe	Other
M	1-Jun	Announce: 1m Bill Settle: 2y Note ($26bn) 5y Note ($35bn) 7y Note ($29bn) **Net cash flow: $85bn***	Boston Fed President Rosengren speaks in Hartford (9:05am) Fed Vice Chair Fischer speaks on financial crisis in Toronto (9:30am)				
T	2-Jun						
W	3-Jun		Chicago Fed President Evans speaks in Chicago (2:15pm) St. Louis Fed President Bullard speaks in St. Louis (5:00pm) Beige Book			ECB rate decision	
R	4-Jun	Announce: 3m Bill 6m Bill 3y Note 10y Note 30y Bond **Net cash flow: $6bn***	Fed Governor Tarullo speaks in New York (12:00pm)			BOE rate decision	
F	5-Jun		New York Fed President Dudley speaks in Minneapolis (12:30pm)		Employment (May)		
M	8-Jun	Announce: 1m Bill					
T	9-Jun	Auction: 3y Note ($24bn)					
W	10-Jun	Auction: 10y Note ($21bn)			Federal budget (May)		
R	11-Jun	Announce: 3m Bill 6m Bill 30y TIPS Auction: 30y Bond ($13bn) **Net cash flow: -$4bn***					
F	12-Jun						
M	15-Jun	Announce: 1m Bill Settle: 3y Note ($24bn) 10y Note ($21bn) 30y Bond ($13bn) **Net cash flow: $58bn***					Corporate tax day
T	16-Jun		FOMC meeting				
W	17-Jun		FOMC statement and projections (2:00pm) and press conference (2:30pm)				
R	18-Jun	Announce: 3m Bill 6m Bill 1y Bill 2y Note 5y Note 7y Note 2y FRN Auction: 30y TIPS ($7bn) **Net cash flow: -$4bn***					
F	19-Jun		Cleveland Fed President Mester speaks in Pittsburgh (12:00pm)				BOJ rate decision

*Net cash flows equal projected and/or announced gross issuance of T-bills, Treasury notes/bonds and TIPs minus principal maturities and coupon payments. Projected gross issuances are J.P. Morgan forecasts.
**Federal Reserve purchases and sales of Treasury coupons are based on the tentative outright Treasury operation schedule published on http://www.newyorkfed.org/markets/tot_operation_schedule.html. Sizes are estimated.

Index of Recent Topics

Regulatory Developments

- **Quarterly regulatory update:** Q12015, Q42014, Q32014, Q22014, Q12014, Q42013
- **Basel III-LCR:** 9/8/2014, 4/14/2014, 11/4/2013, 8/26/2013, 7/15/2013, 4/8/2013, 1/14/2013, 1/14/2013, 1/7/2013
- **Dodd-Frank/Volcker Rule:** 11/3/2014, 12/16/2013, 9/23/2013
- **EU Financial transaction tax:** 4/29/2013
- **LIBOR reform:** 7/15/2013, 2/11/2013
- **Shadow Banking:** 9/16/2013, 4/22/2013
- **Foreign Capital Rules:** 2/24/2014
- **Other:** 11/3/2014, 6/23/2014, 3/3/2014 (SIFI excise tax)

Money Fund Reform

- **US:** 5/4/2015, 4/27/2015, 2/18/2015, 2/2/2015, 8/4/2014, 7/28/2014, 7/21/2014, 5/12/2014, 10/7/2013, 9/9/2013, 7/29/2013, 6/10/2013, 6/3/2013, 3/18/2013, 2/25/2013, 1/14/2013
- **Europe:** 9/9/2013, 5/6/2013, 3/17/2014

Money Market Fund Holdings

- **Monthly updates:** 5/18/2015, 4/13/2015, 3/16/2015, 2/11/2015, 1/16/2015, 12/15/2014, 11/24/2014, 10/14/2014, 9/12/2014, 8/19/2014, 7/16/2014, 6/16/2014, 5/15/2014, 4/14/2014, 3/13/2014, 2/13/2014, 1/13/2014

Fed

- **Exit strategy:** 4/13/2015, 9/22/2014
- **Reverse repo facility:** 2/9/2015, 1/26/2015, 1/12/2015, 11/3/2014, 10/6/2014, 9/22/2014, 9/15/2014, 7/21/2014, 7/14/2014, 7/1/2014, 3/10/2014, 1/27/2014, 1/13/2014, 1/6/2014, 9/23/2013, 8/26/2013
- **IOER:** 1/27/2014, 1/13/2014, 11/18/2013, 8/26/2013
- **Flow of funds:** 3/10/2014, 6/10/2013, 3/11/2013

Treasury

- **FRN:** 2/2/2015, 2/3/2014, 11/4/2013, 8/5/2013, 2/11/2013
- **Quarterly refunding announcement:** 5/11/2015, 2/9/2015, 11/10/2014, 8/11/2014, 5/6/2013

FDIC

- **Quarterly banking profile:** 9/29/2014, 6/2/2014, 3/3/2014, 3/4/2013
- **TAG program:** 6/3/2013, 3/4/2013, 1/7/2013

Miscellaneous

- **Moody's matrix:** 6/9/2014
- **Deposit shedding:** 3/2/2015
- **Bills market:** 3/9/2015, 4/20/2015
- **Rating agencies activity:** 11/18/2013, 8 /26/2013, 4/8/2013, 2/4/2013
- **Securities Lending:** 4/20/2015
- **Short-term corporates:** 2/23/2015, 3/24/2014
- **Repo market primer:** 3/31/2014
- **Rate trends/forecasts:** 5/5/2014, 4/28/2014
- **Tier 2 CP:** 3/23/2015

Analytics Packages

- **Weekly analytics package:** 5/18/2015
- **FRNI weekly package:** 5/18/2015

2015 Outlook: Outlook

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