

RATE ENVIRONMENT

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THE MARKETS

Treasuries rallied as growing concern about the spread of a virus that originated in China weighed on global risk sentiment, spurring investor appetite for safe assets. The gains drove the yield on the benchmark 10-year Treasury note under 1.70%, the lowest since December 3. Yields in Germany and the U.K. also fell to fresh 2020 lows on Friday. Fed funds traders are now placing a 61% probability of a 25 basis point cut by the central bank by the November 5 meeting. Stock indexes, meanwhile, declined even amid signs of strength in the technology sector and upbeat economic data from Europe. Shares closed the week with losses, ending a two-week winning streak for the Dow and the S&P and a six-week winning streak for the Nasdaq. Commodities from oil to copper slid with the virus spreading and disrupting travel in China. Crude oil finished trading at \$54.19 a barrel, compared with \$63.04 as recently as January 6.

THE ECONOMY

Existing home sales rose 3.6% to a 5.54 million annual rate; median prices increased 7.8% and inventory fell to a 3.5 months supply. The FHFA price index, meanwhile edged up 0.2% and leading indicators were off 0.3%.

New home sales are expected to advance 1.2% for December to 728,000 while durable goods orders gain 1%. The economy is seen growing 2.1% in Q4 as the price index rises 1.6% for a third month. Look for consumer confidence to hold at 99.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	1.75%	1.75%	2-Year Agency	1.51%	1.59%
Prime	4.75%	4.75%	5-Year Agency	1.54%	1.67%
2-Year Treasury	1.49%	1.58%	15-Year MBS	2.12%	2.21%
5-Year Treasury	1.51%	1.63%	30-Year MBS	2.48%	2.62%
10-Year Treasury	1.70%	1.84%	3-Month LIBOR	1.80%	1.82%

Source: Bloomberg

INTEREST RATE SWAPS / CAPS / FLOORS

Buyer Pays Fixed- Indications only based on quarterly settlements

Term	SWAP			CAP		FLOOR	
	90-Day LIBOR	PRIME		90-Day LIBOR (1.75%)	90-Day LIBOR (2.50%)	90-Day LIBOR (1.75%)	90-Day LIBOR (2.50%)
1-Year	1.68%	4.38%		0.08%	0.05%	0.21%	0.96%
2-Year	1.55%	4.35%		0.19%	0.06%	0.62%	1.98%
3-Year	1.51%	4.43%		0.44%	0.16%	1.17%	3.03%
5-Year	1.53%	4.45%		1.22%	0.59%	2.35%	5.22%

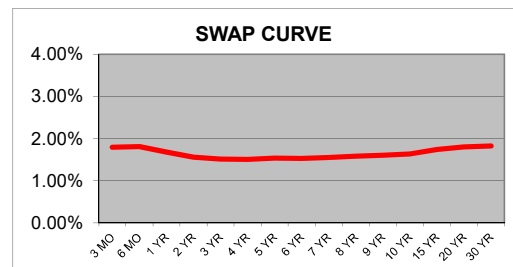
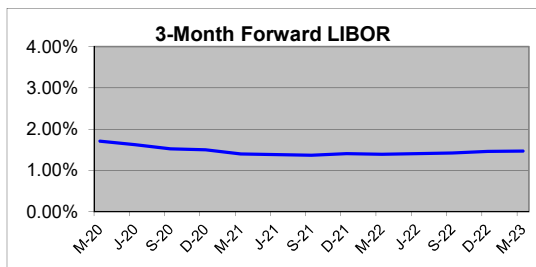
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 54.19	-11.25%	Dow Jones Ind Avg	28,989.73	1.58%
Commodities (CRB Index)	\$ 175.75	-5.40%	NASDAQ	9,314.91	3.82%
EURO (spot)	\$ 1.100	-1.90%	S&P 500	3,295.47	2.03%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The OCC plans to move ahead with a proposal to overhaul rules governing lending in low-income neighborhoods despite objections from the Federal Reserve. Comptroller of the Currency Joseph Otting said he doesn't see time to compromise with the Fed regarding a December proposal that would update federal regulations under the Community Reinvestment Act. The proposal was crafted jointly by his office and the Federal Deposit Insurance Corp. "My thought or vision will be that we will do a joint OCC-FDIC rule, and then the Fed will have to make a determination whether they want to ultimately, you know, pick what we've done or modify it for the 15% of the banks that they regulate," Mr. Otting said. *Wall Street Journal*

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