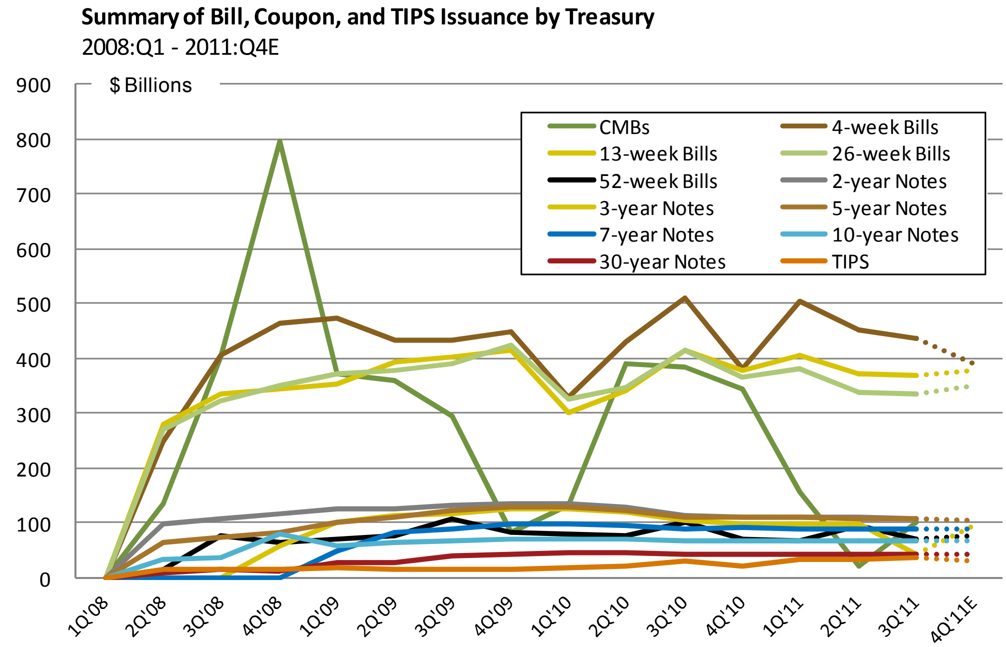
NET ISSUANCE EXPECTED TO INCREASE



Source: U.S. Treasury, 4Q'11 SIFMA Government Forecast Survey

TOTAL ISSUANCE OUTLOOK The SIFMA Quarterly Issuance Survey[1] forecasts total net Treasury bill, note, and bond issuance to be $363.4 billion in the fourth quarter of 2011, 55.1 percent above the net $234.3 billion issued in the third quarter (actuals include cash management balances) and slightly above the $362.0 billion previously forecast in SIFMA's 3Q'11 issuance survey[2]. The survey participants expect the Treasury issuance to be 27.5 percent higher than the Treasury's August borrowing estimate of $285 billion.[3] The 3-year notes issuance is expected to double in 4Q'11, while 4-week bills and TIPS are projected to decrease by 10.6 percent and 18.3 percent, respectively. Overall, both net issuance of bills and coupons is expected to increase in 4Q'11.

Excluding cash management bills (CMBs), total net issuance stood at $132.3 billion in 3Q'11, 22.1 percent below $169.7 billion in the prior quarter. After a significant drop in CMBs issuance to a post-crisis low of $20.0 billion in 2Q'11, the use of short-term CMBs increased fourfold in 3Q'11. Despite the large increase, the CMBs issuance remains low. The $102.0 billion of CMBs issued during the third quarter is the second-lowest quarterly issuance since $82.0 billion in 4Q'09.

The total third quarter net issuance of $234.3 billion was 23.5 percent higher than $189.7 billion issued in the previous quarter but 29.2 percent lower than Treasury's August borrowing estimate of $331 billion for the third quarter of 2011.

After months of deliberations, the debt ceiling was raised by $2.1 trillion at the beginning of August from $14.3 trillion to $16.4 trillion just hours before the country could have begun defaulting on some of its obligations. As part of the agreement, the federal budget deficit is expected to be lowered by $2.5 trillion over the next decade. Despite the increase in the debt ceiling, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history. The agency lowered its rating on the U.S. Treasuries by one notch to AA-plus. The downgrade did not have a large impact on the demand for Treasury securities or rates. Just a few days after the S&P

[1] The survey was conducted beginning on October 3, 2011 and ending on October 18, 2011. Survey results are medians and the dates and numbering of quarters are based on calendar year rather than fiscal year, unless otherwise noted. A description of the participants is provided on page 5. Previous survey reports may be found at http://www.sifma.org (Research Reports).

[2] SIFMA's 3Q'11 Government Forecast Survey results can be found here.

[3] See US Treasury's third quarter 2011 marketable borrowing estimates.

stripped the U.S. of its triple-A rating, both 3-year and 10-year auctions were sold at the lowest yields on record and were met with strong demand.

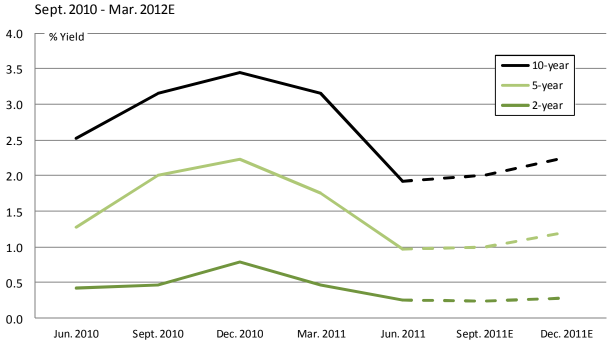
The economy continued to struggle during the third quarter of 2011. On September 20, 2011 the Federal Reserve downgraded its near-term economic outlook once again and announced steps to support economic recovery including reiterating the intention to keep the target Fed Funds rate at 0-0.25 percent through mid-2013 and extending the average maturity of its securities holdings. Additionally, the FOMC announced it would now reinvest principal payments from its MBS holdings to support conditions in the mortgage market.

TREASURY COUPON ISSUANCE The median forecast for net new issuance of Treasury coupon securities (notes and bonds) is $307.9 billion in the fourth quarter, 6.8 percent above 3Q'11's net issuance of $288.3 billion.[4] Gross coupon issuance is expected to total approximately $531 billion, 21.9 percent higher than the $435.5 billion issued in the prior quarter. Survey respondents also expect Treasury to finish 4Q'11 with $95 billion in cash[5], slightly below the $100 billion mark Treasury estimated in August for an end-December cash balance. The difference in respondents' forecast and Treasury's estimate may be smaller as some respondents exclude from their forecasts the $5 billion allocated for Treasury's Supplementary Financing Program (SFP). As Treasury has transitioned from bill to coupon financing, the percentage of nominal coupons in the Treasury's portfolio has been gradually increasing and stood at 76 percent (above the long-term average of 69 percent) at the end of 3Q'11. The share of coupons in the Treasury's debt portfolio is expected to rise further as the Treasury continues the effort of extending the average maturity of outstanding debt and therefore reducing the portfolio's rollover risk.

T-BILL ISSUANCE Survey participants expect to see net bill issuance of $55.5 billion in the fourth quarter, a much different outcome than the $54.0 billion redeemed in the third quarter of 2011. Similar to the previous quarter forecast, there was a wide variance in responses[6], which showed there was no consensus on expectations for net bill issuance. Since the announcement of the Treasury's refunding in November 2010, bills have fallen as a percentage of the portfolio to 16 percent. This trend is expected to continue as the Treasury continues to extend average maturity of its portfolio. As of now, this measure stands at 61.9 months, above the long-term average of 58 months. In August, Treasury suspended the Supplementary Financing Program (SFP) due to the debt limit negotiations and announced that the implementation of the debt limit increase over the next few months will make it difficult to bring the program back in the near term.

TIPS Survey respondents forecast that Treasury will issue $30.0 billion of Treasury Inflation-Protected Securities (TIPS) in the fourth quarter, 18.3 percent below the $36.7 billion issued in 3Q'11. Treasury announced that it remains pleased with the demand for inflation protection, particularly given Treasury's goal to gradually increase TIPS supply. Going forward, Treasury confirmed its expectation to issue $125 billion in TIPS for the calendar year 2011. As a percentage of the Treasury's portfolio, TIPS remain at approximately 7 percent.

Projected 2-Year, 5-Year, and 10-Year Treasury Yield Movement
Sept. 2010 - Mar. 2012E



Source: U.S. Treasury, 4Q'11 SIFMA Government Forecast Survey

U.S. TREASURY YIELD OUTLOOK

The survey forecasts benchmark Treasury yields to slightly increase going forward through the first quarter of 2012. After a period of significant yield increases since November 2010 (and following the QE2 announcement), the yields have been declining since the beginning of 2011 due to continued financial crisis in Europe and speculation that the agreement to curb U.S. budget deficit may impede economic growth. Recently, Treasury yields have decreased sharply both in the front- and back-end of the curve. Two-year rates decreased from 0.46 percent in 2Q'11 to 0.25 percent in 3Q'11 and 10-

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4 Net coupon issuance projections for the fourth quarter of 2011 ranged from $250 billion to $364 billion.

5 Net cash position projections for the end of the fourth quarter of 2011 ranged from $13 billion to $125 billion.

6 Net bill issuance projections for the fourth quarter of 2011 ranged from a net redemption of $3 billion to a net issuance of $341 billion.

Treasury Yield Projections and Ranges

	Sept. 30, 2011	Dec. 31, 2011 E	Mar. 31, 2012 E
2 year Treasury Note	0.25	**0.24** (0.1 - 0.3)	**0.28** (0.1 - 0.3)
5 year Treasury Note	0.97	**1.00** (0.7 - 1.3)	**1.20** (0.8 - 1.5)
10 year Treasury Note	1.93	**2.00** (1.6 - 2.8)	**2.25** (1.8 - 2.8)
30 year Treasury Bond	2.92	**3.20** (2.5 - 4.0)	**3.45** (2.5 - 4.0)
3 Month LIBOR	0.37	**0.45**	**0.45**

Source: 4Q'11 SIFMA Government Forecast Survey

year rates declined from 3.16 percent to 1.93 percent during the same period. Going forward through March of 2012, survey respondents forecast slight increase in yields (summarized in the table on the left side).

UPSIDE AND DOWNSIDE RISKS TO RATES

The survey also asked participants about risks to their forecasts or events that could cause interest rates to move higher or lower than forecasted (summarized below in the table).

The main risks identified on the upside (higher-than-expected yields) were: stronger than expected economic recovery, resolution of the European debt crisis, increased in inflation, and increased mortgage refinancing.

Conversely, the main risks noted on the downside (lower-than-expected yields) were: slowdown in economic growth, European default on sovereign debt/escalation of European crisis, and domestic political dysfunction.

Summary of Risks to Rate Forecast

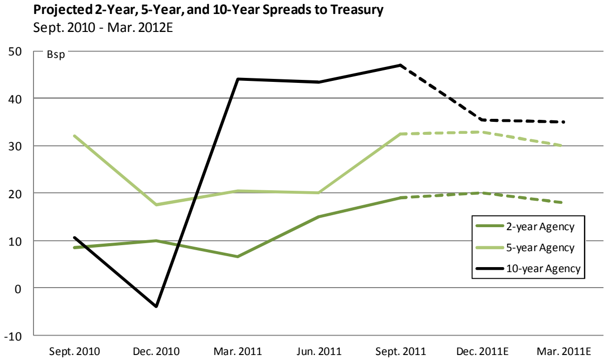
	Risks to Upside	Risks to Downside
#1	Credible crisis resolution in Europe, better than expected economic data	Escalation of crisis in Europe, slowdown in consumer spending
#2	Stronger than expected economic data, increase in core inflation	Contagion from Europe, renewed risks of recession
#3	Huge unwind of risk-off positions by hedge funds, strong economic data	Economic growth dissapointment, no credible policy to stem the Euopean crisis
#4	Increase in inflation, economic growth	Euro-area crisis, domestic political dysfunction
#5	Stock market recovery as economic outlook improves faster than expected	Intensified banking and sovereign crisis in Europe
#6	Resolution of the European debt crisis through policy measures, increased mortgage refinancing, fiscal stimulus	A messy Greek default with contagion effects in the banking sector, a hard landing in China leading to global growth
#7	Economic data improvement, European resolution	Escalation of European crisis
#8	Inflation above levels predicted by output gap models, steepening yield curve	IOER cut lowering front end rates, Greece default/European banking crisis
#9	No answers provided	No answers provided

Source: 4Q'11 SIFMA Government Forecast Survey

AGENCIES' COUPON ISSUANCE Survey participants forecast total gross coupon issuance by the four largest Federal agencies to be $274.0 billion in the fourth quarter.[7] The projections reflect 9.3 percent increase from the $250.8 billion issued by the agencies in 3Q'11, with much of the increase coming from Freddie Mac. Freddie Mac is expected to issue $81.0 billion in coupons in 4Q'11 compared to its 3Q'11 issuance of $67.9 billion, an increase of 19.3 percent. Survey respondents indicated that over a third of 4Q'11's issuance volume is expected to come from the Federal Home Loan Banks (FHLBs), 29.6 percent from Freddie Mac, 25.5 percent from Fannie Mae, and the remaining 8.4 percent from the Farm Credit System Banks.

On October 1, the conforming loan limits (the maximum size of a mortgage the government can guarantee or buy) dropped to $625,500. The limits have been raised in some areas in the past to allow for buyers in higher-cost cities to qualify for the loans and the Obama administration has been working on extending them to help boost the struggling real-estate market. The bill supporting the reinstitution of the previous higher limits of $729,750 was passed in the Senate and is currently being debated in Congress.

[7] Includes Fannie Mae, Freddie Mac, the Federal Home Loan Banks (FHLBs), and the Federal Farm Credit Banks Funding Corporation.



Source: U.S. Treasury, 4Q'11 SIFMA Government Forecast Survey

Distribution of Duration Weightings

	Strong Over	Over	Neutral	Under	Strong Under
0-3 years	0%	11%	78%	0%	11%
3-7 years	0%	44%	44%	0%	11%
7-10 years	11%	56%	11%	11%	11%
10-30 years	11%	56%	0%	22%	11%

Source: 4Q'11 SIFMA Government Forecast Survey

SPREADS OUTLOOK

Respondents expect agency-to-Treasury yield spreads to increase slightly in 4Q'11 and then marginally fall in the first quarter of 2012. The swap spreads are predicted to increase for the intermediate- and long-term securities through the next two quarters and decrease for the short-term securities. The 3-month LIBOR rate is expected to increase to 0.45 percent by end-December and stay flat through the end-March 2012.

PORTFOLIO ALLOCATION RECOMMENDATIONS

The survey asked for model portfolio allocation recommendations, compared to the current portfolio weighting, across the maturity spectrum of the U.S. Treasury yield curve. The results changed slightly from the last survey, when respondents generally favored a neutral and underweight recommendation for both the shorter and longer time horizons. For fourth quarter 2011, survey participants recommend neutral and overweight position for short-term securities and overweight position for longer-term horizons.

SIFMA'S GOVERNMENT SECURITIES ISSUANCE AND RATES FORECASTS

SIFMA's Government Securities Issuance and Rates Forecast

Forecast numbers appear in bold

Issuance Projections (in $Billions)

U.S. Treasury Borrowing[1]	3Q'11	4Q'11E
Net Coupon Issuance	288.3	**307.9**
Gross Coupon Issuance	*435.5*	***531.0***
Gross Coupon Redemptions	*147.3*	***223.0***
Net Bill Issuance	(54.0)	**55.5**
Gross Bill Issuance	*1,311.1*	***1,183.5***
Gross Bill Redemptions	*1,365.1*	***1,162.0***
Quarter end cash balance (expected)		**95.0**
U.S. Treasury Quarterly Gross New Issuance		
4 week Bill	436.1	**390.0**
13 week Bill	367.0	**377.0**
26 week Bill	336.0	**351.0**
52 week Bill	70.0	**75.0**
2 year Treasury Note	108.2	**105.0**
3 year Treasury Note	42.5	**96.0**
5 year Treasury Note	108.2	**105.0**
7 year Treasury Note	89.7	**87.0**
10 year Treasury Note	66.7	**66.0**
30 year Treasury Bond	42.5	**42.0**
Treasury Inflation-Indexed Securities	36.7	**30.0**
Federal Agency: Projected Total Gross Coupon Debt Issuance[2]		
Fannie Mae	64.2	**70.0**
Freddie Mac	67.9	**81.0**
Federal Home Loan Bank System - Office of Finance	98.7	**100.0**
Federal Farm Credit Banks Funding Corporation	20.0	**23.0**

	FY estimates
Federal Budget Deficit Estimate - FY2011	**1,299.0**
Federal Budget Deficit Estimate - FY2012	**1,125.0**

Rates & Spreads Outlook

Interest Rates (End of Quarter in %Yield)	9/30/11	12/31/11E	3/31/12E
2 year Treasury Note	0.25	**0.24**	**0.28**
5 year Treasury Note	0.97	**1.00**	**1.20**
10 year Treasury Note	1.93	**2.00**	**2.25**
30 year Treasury Bond	2.92	**3.20**	**3.45**
3 Month LIBOR	0.37	**0.45**	**0.45**
Spreads to Treasury (End of Quarter in Basis Points)			
2 year Agency Benchmark/Reference Notes[3]	19.0	**20.0**	**18.0**
5 year Agency Benchmark/Reference Notes[3]	32.5	**33.0**	**30.0**
10 year Agency Benchmark/Reference Notes[3]	47.0	**35.5**	**35.0**
2 Year SWAP Spreads	32.3	**31.0**	**31.0**
5 Year SWAP Spreads	29.5	**30.0**	**31.5**
10 Year SWAP Spreads	18.5	**19.0**	**22.0**

[1] *Excluding Federal Reserve's purchase*

[2] *Including all callable coupon issuance and excluding all discount notes*

[3] *Agency spreads to Treasury yield are in basis points.*

SURVEY PARTICIPANTS

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Government Securities Research and Strategist Committee

The Securities Industry and Financial Markets Association's Quarterly Government Securities Issuance and Rates Forecast reflects the responses to a survey of members of the Association's Primary Dealers Committee and Government Securities Research and Strategist Committee. The Committee is composed of trading strategists and research analysts at Association member firms who specialize in the U.S. government and agency securities markets. The survey is intended to provide market participants with the current consensus expectations and median forecasts of many of the Primary Dealers and other firms active in the U.S. government and agency securities markets.

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