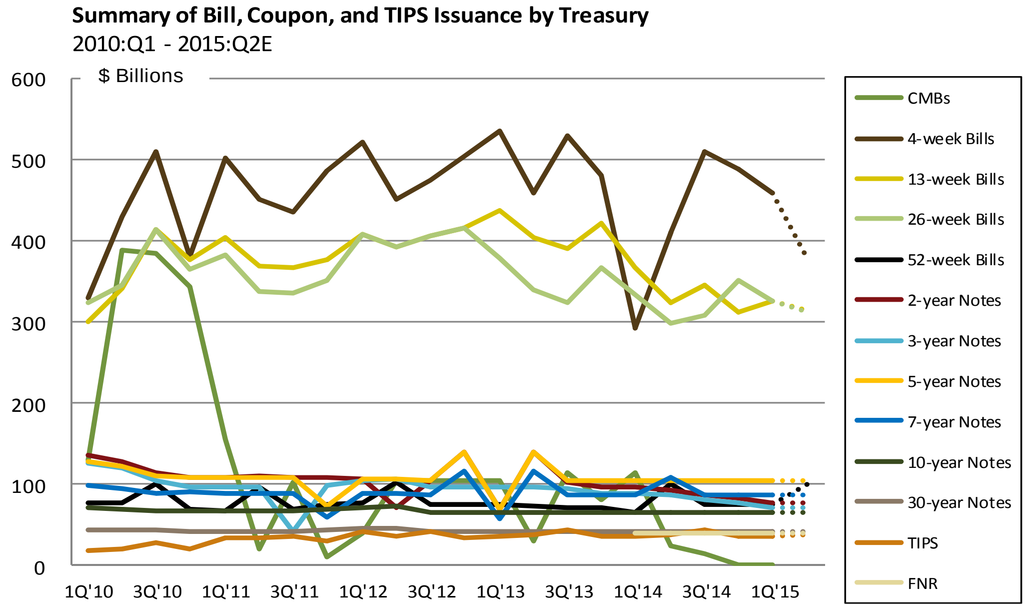
GOVERNMENT FORECAST



Source: U.S. Treasury, 2Q'15 SIFMA Government Forecast Survey

TOTAL ISSUANCE OUTLOOK

The SIFMA Quarterly Issuance Survey[1] forecasts total net Treasury bill, note, and bond issuance to be $38.0 billion in the second quarter of 2015, 70.2 percent lower than the $127.6 billion issued in 1Q'15 (actuals include cash management balances). SIFMA's forecast for the second quarter issuance of net marketable debt is much different than Treasury's February debt redemption estimate of $7.0 billion.[2] The net bill redemption in 2Q'15 is expected to be $100.0 billion, much higher than the $1.1 billion paid down during the first quarter, while the net issuance of coupons is expected to be $138.0 billion, a 7.3 percent increase from $128.7 billion issued in the previous quarter.

Excluding cash management bills (CMBs), total net issuance of Treasury bills, notes, and bonds in 1Q'14 stood at $127.6 billion, a 52.6 percent decrease from the net issuance of $227.4 billion in the prior quarter. No CMBs was issued in 1Q'15, the second consecutive quarter without new CMBSs.

The total 1Q'15 net issuance of Treasury securities, including CMBs, stood at $127.6 billion, 17.7 percent below the Treasury's February estimate of $155.0 billion for the first quarter of 2015.

TREASURY COUPON ISSUANCE

The median forecast for net issuance of Treasury coupon securities (notes and bonds) is $138.0 billion for the second quarter, 7.3 percent above the 1Q'15's net issuance of $128.7 billion.[3] Gross coupon issuance is expected to total approximately $529.0 billion, a 21.3 percent increase from the $436.1 billion issued in the prior quarter. The gross issuance of notes and bonds is expected to be flat for all maturities with all notes and bonds issuance expected to stay exactly the same as in 1Q'15. The forecasted stability in issuance of coupons is in line with the Treasury Borrowing Advisory Committee of SIFMA (TBAC) recommendation that after $1 billion cuts to both the 2- and 3-year coupon auction sizes beginning in November 2014 further coupon cuts were not necessary.[4]

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[1] The survey was conducted beginning on April 14, 2015 and ending on April 24, 2015. 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 6. Previous survey reports may be found at http://www.sifma.org (Research Reports).

[2] Treasury's February borrowing estimates can be found here.

[3] Net coupon issuance projections for the first quarter issuance ranged from $120 billion to $140 billion.

[4] Minutes of the Meeting of the TBAC, February 4, 2015.

Survey respondents expect the Treasury to finish 1Q'15 with $200.0 billion in cash, 33.3 percent higher than the $150.0 billion estimated by Treasury in April for an end-June cash balance.

As the Treasury transitioned from bill to coupon financing, the percentage of nominal coupons in the Treasury's portfolio has increased significantly during the last year and has leveled off recently at 68.3 months as of December 31, 2014, slightly down from 68.5 months at the November TBAC meeting but well above the three decade average of 58.7 months. By 2025, the maturity of the Treasury's portfolio is expected to reach 85 months if the proportions for coupon issuance remain constant, the highest level since the mid-1950s.[5]

FRNS ISSUANCE

In 1Q'15, $41.0 billion in Floating Rate Notes (FRNs) was issued, flat from the fourth quarter of 2014. After the inaugural FRN auction in January 2014, the supply of FRNs has been constant at $41.0 billion per quarter and the demand for FRNs has been high with the average bid-to-cover ratio of 4.3 since the inaugural auction. The survey respondents expect the Treasury to continue issuing FRNs at the same pace of $41.0 billion in 2Q'15.

TIPS ISSUANCE

Survey respondents forecast that the Treasury will issue $38.0 billion of Treasury Inflation-Protected Securities (TIPS) in the second quarter of 2015, up 2.7 percent from the $37.0 billion issued in 1Q'15. Bid-to-cover ratios for TIPS have declined in recent years to an average of 2.4 in 1Q'15 but they remain elevated relative to pre-2009 averages.

T-BILL ISSUANCE

Survey participants expect to see net bill redemption of $100.0 billion in the second quarter, much higher than the net redemption of $1.1 billion in the first quarter. While the forecast of coupon issuance was uniform among survey respondents, the expectations for the net bill issuance varied widely among the survey respondents,[6] showing no consensus in the direction or the scale of net bill issuance in 2Q'15 (the forecast ranged from the redemption of $240.0 billion to issuance of $15.0 billion). The gross issuance of bills is expected to decrease by 6.3 percent to $1.12 trillion in 2Q'15, from $1.20 trillion issued in the prior quarter. The composition of bill issuance is expected to change slightly: the issuance of 4-week, 13-week, and 26-week bills is forecasted to decrease by 17.9 percent, 3.7, and 4.3 percent, respectively while the issuance of 52-week bills is projected to increase by 33.3 percent in 2Q'15. The bid-to-cover ratios for bills remain high (between 3.7 and 4.2) relative to historical levels, showing that there is high demand for short-term debt.

MONETARY POLICY OUTLOOK

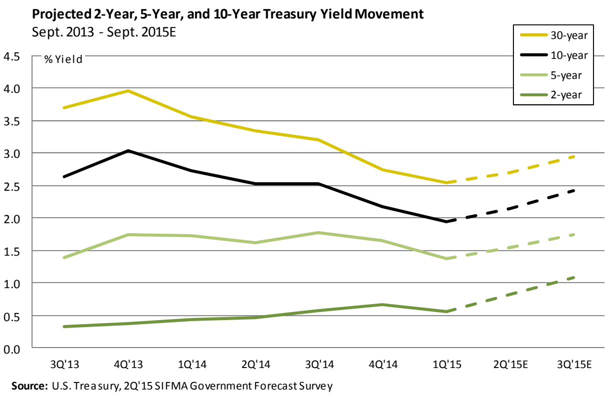
During the most recent FOMC meeting in April 2015, the Committee judged that the economic growth slowed in the winter months, the pace of job gains moderated, growth in household spending declined, and business fixed investment softened. After concluding its asset purchase program in October 2014, the Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, which should help maintain accommodative financial conditions.[7]

The Fed reaffirmed that a highly accommodative stance of monetary policy and the exceptionally low range for the target Fed Funds rate of 0-0.25 percent remains appropriate. In determining how long to maintain the current target range for the Federal Funds rate, the Committee will assess progress, both realized and expected, toward its objectives of maximum employment and 2 percent inflation. The Committee stated that it can be patient in beginning to normalize the stance of monetary policy and signaled that it would not raise short-term interest rates any earlier than June and that economic conditions may warrant keeping the target federal funds rate below levels the Com-

[5] Minutes of the Meeting of the TBAC, February 4, 2015.
[6] Net bill issuance projections for 2Q'15 ranged from redemption of $240 billion to issuance of $15 billion.
[7] Statement from the FOMC Meeting, April 28-29, 2015.

mittee views as normal in the longer run.[8]

This quarter the survey asked the participants when they expect the Fed to raise the target rate. The majority (71.4 percent) of respondents indicated that they are expecting the Fed to raise the target rate at the September 2015 meeting with the rest indicating later than September 2015.



Treasury Yield Projections and Ranges

	Mar. 31, 2015	Jun. 30, 2015E	Sept. 30, 2015E
2 year Treasury Note	0.56	**0.82** (0.65 - 0.95)	**1.08** (0.75 - 1.25)
5 year Treasury Note	1.37	**1.55** (1.50 - 1.99)	**1.75** (1.65 - 2.15)
10 year Treasury Note	1.94	**2.15** (1.85 - 2.50)	**2.43** (2.05 - 2.60)
30 year Treasury Bond	2.54	**2.70** (2.35 - 3.05)	**2.95** (2.50 - 3.05)

Source: 2Q'15 SIFMA Government Forecast Survey

Summary of Risks to Rate Forecast

	Risks to Upside
#1	Sharply higher inflation, Term premium expansion, risk-on environment
#2	Stronger pickup in inflation and growth in Q2
#3	Strong near-term rebound in the US data, alleviation of Greece uncertainty
#4	June rate hike, recovery of oil prices, surprise wage inflation
#5	Stronger improvement in inflation outlook, labor participation rate, and/or wage inflation
#6	Inflation pick-up, more hawkish Fed, oil prices rise, economy bounces back wuickly from winter weakness
#7	Commodities spike and inflation expectations move sharply higher
#8	*No response*
	Risks to Downside
#1	Continued rolling flattening in Europe, weaker US growth and growth outlook
#2	Risk of an accident in Europe, with regards to Greece
#3	Further labor market deterioration in the US
#4	2016 rate hike, another bad job report
#5	Global growth slowdown, oil staying low, USD strengthening, lower term premia due to risk-off trade
#6	Greece issues worsen financial and eonomic consitions in Europe, drivers of recent domestic weakness prove to be more fundamental in nature.
#7	"Conundrum" -- risk the market doesn't react to moves in the policy rate, we don't get the Q2 growth bounce back we are expecting
#8	*No response*

Source: 2Q'15 SIFMA Government Forecast Survey

U.S. TREASURY YIELD OUTLOOK

In 1Q'15, the Treasury yields decreased for all maturities. Two-year rates decreased to 0.56 percent at the end of March from 0.67 percent in December 2014, the 5-year yields decreased to 1.37 percent in 1Q'15 from 1.65 percent in the end of December, the 10-year yields decreased to 1.94 percent from 2.17 percent in 4Q'14, and 30-year yields decreased to 2.54 percent in March 2015 from 2.75 percent in December. Survey respondents forecast benchmark yields to increase across all other maturities in the next two quarters of 2015. The 2-year Treasury yields are expected to increase to 0.82 percent by June 2015 and further to 1.08 percent by September 2015. Five-year yields are projected to increase to 1.55 percent and then increase to 1.75 in 3Q'15. Similarly, for long-term maturities, survey responders expect a gradual increase by the end of September. The 10-year rates are forecasted to increase to 2.15 percent and 2.43 percent at the end of June and September, respectively, while 30-year yields are expected to finish 2Q'15 at 2.70 percent and 3Q'15 at 2.95 percent (forecast summarized in the table on the left side).

UPSIDE AND DOWNSIDE RISKS TO RATES

The survey asked participants about risks to their forecasts or events that could cause interest rates to move higher or lower than forecasted (summarized in the table on the left). The main risks to rates for both the upside and the downside have remained relatively the same over the last few quarters.

The main risks to the forecast identified on the upside (higher-than-expected yields) remained consistent from the previous quarter: stronger pickup in inflation, stronger than expected Euro economic rebound, more hawkish Fed, and stronger than expected recovery in oil prices.

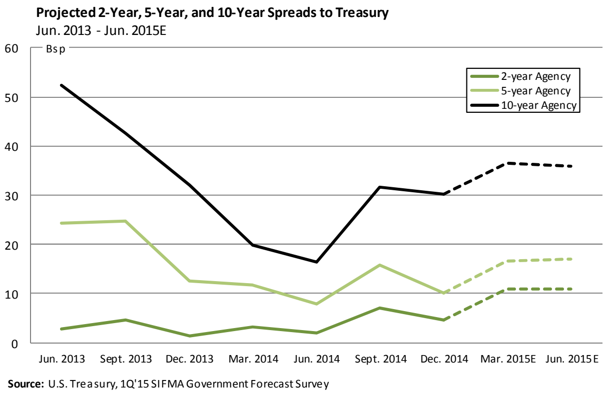
In contrast, the main risks noted on the downside (lower-than-expected yields) were: US economic deterioration, worse than expected job report, worsening in European situation, and fall inflation.

AGENCIES' COUPON ISSUANCE

In 1Q'15 the total issuance by the four largest Federal agencies stood at $133.4 billion, up 33.4 percent from $100.0 billion in 4Q'14.[9] Survey participants forecast total gross coupon issuance by the four largest Federal agencies to increase by 11.7 percent to $149.0 billion in the second quarter of 2015. The projections reflect a decrease in Freddie Mac's issuance of 33.0 percent and increases in the other three agencies issuance. The Federal Home Loan Banks are expected to issue $80.0 billion in coupons in 2Q'15, a 49.2 percent increase from their 1Q'15 issuance of $53.6 billion, Federal Farm Credit Banks' issuance is projected to increase to $26.0 billion from $24.4 billion in 1Q'15, while the issuance of Fannie Mae is expected to increase by 5.5 percent to $16.0 billion. Survey respondents indicated that 53.7 percent of 2Q'15's issuance volume is expected to

[8] Statement from the FOMC Meeting, April 28-29, 2015.
[9] Includes Fannie Mae, Freddie Mac, the Federal Home Loan Banks (FHLBs), and the Federal Farm Credit Banks Funding Corporation.

come from the Federal Home Loan Banks (FHLBs), about 18.1 percent from Freddie Mac, 17.4 percent from Farm Credit System Banks, and the balance from Fannie Mae.



Distribution of Duration Weightings

	Strong Over	Over	Neutral	Under	Strong Under
0-3 years	0%	0%	43%	43%	14%
3-7 years	14%	0%	29%	57%	0%
7-10 years	0%	0%	57%	43%	0%
10-30 years	0%	29%	43%	29%	0%

Source: 2Q'15 SIFMA Government Forecast Survey

SPREADS OUTLOOK

The agency-to-Treasury yield spreads increased in 1Q'14 across shorter maturities: for 2-year agency the spread widened to 5.4 basis points (bps) from 4.7 bps in 4Q'14 and the 5-year spread increased to 12.8 bps from 10.1 bps in the previous quarter. The 10-year spread tightened to 29.4 bps end-March from 30.3 bps end-December 2014. Survey respondents expect agency-to-Treasury yield spreads to widen across all maturities through June 2015 and then decrease for 2-year and 10-year maturities while continue widening for 5-year maturities... Two-year spreads are projected to increase to 10.0 bps in 2Q'15 than decrease to 9.0 bps in 3Q'15, 5-year spreads are expected to increase to 16.0 bps end-June and increase further to 17.5 bps end-September, and 10-year spreads are projected to widen to 35.0 bps by the end of 2Q'15 and slightly tighten to 34.0 bps by September 2015 (results summarized in the forecast table at the end).

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 showed that recommendations concentrated around neutral and under-weigh for all maturities (summary of the can be found in the table on the left side).

GOVERNMENT FORECAST SUMMARY

SIFMA's Government Securities Issuance and Rates Forecast

Forecast numbers appear in bold

Issuance Projections (in $Billions)

U.S. Treasury Borrowing[1]	1Q'15	**2Q'15E**
Net Coupon Issuance	128.6	**138.0**
Gross Coupon Issuance	*436.1*	***529.0***
Gross Coupon Redemptions	*307.4*	***391.0***
Net Bill Issuance	(1.1)	**(100.0)**
Gross Bill Issuance	*1,198.9*	***1,124.0***
Gross Bill Redemptions	*1,200.0*	***1,207.0***
Quarter end cash balance (expected)		**200.0**
U.S. Treasury Quarterly Gross New Issuance		
4 week Bill	460.0	**377.5**
13 week Bill	326.0	**314.0**
26 week Bill	326.0	**312.0**
52 week Bill	75.0	**100.0**
2 year Treasury Note	78.0	**78.0**
3 year Treasury Note	72.0	**72.0**
5 year Treasury Note	105.0	**105.0**
7 year Treasury Note	87.0	**87.0**
10 year Treasury Note	66.0	**66.0**
30 year Treasury Bond	42.0	**42.0**
Treasury Inflation-Indexed Securities	37.0	**38.0**
Floatng Rate Notes	41.0	**41.0**
Federal Agency: Projected Total Gross Coupon Debt Issuance[2]		
Fannie Mae	15.2	**16.0**
Freddie Mac	40.3	**27.0**
Federal Home Loan Bank System - Office of Finance	53.6	**80.0**
Federal Farm Credit Banks Funding Corporation	24.4	**26.0**

	FY estimates
Federal Budget Deficit Estimate - FY2015	**470.0**
Federal Budget Deficit Estimate - FY2016	**570.0**

Rates & Spreads Outlook	3/31/2015	**6/30/2015E**	**9/30/2015E**
Interest Rates (End of Quarter in %Yield)			
2 year Treasury Note	0.56	**0.82**	**1.08**
5 year Treasury Note	1.37	**1.55**	**1.75**
10 year Treasury Note	1.94	**2.15**	**2.43**
30 year Treasury Bond	2.54	**2.70**	**2.95**
Spreads to Treasury (End of Quarter in Basis Points)			
2 year Agency Benchmark/Reference Notes[3]	5.4	**10.0**	**9.0**
5 year Agency Benchmark/Reference Notes[3]	12.8	**16.0**	**17.5**
10 year Agency Benchmark/Reference Notes[3]	29.4	**35.0**	**34.0**
2 Year SWAP Spreads	25.1	**25.0**	**25.0**
5 Year SWAP Spreads	15.9	**15.5**	**17.0**
10 Year SWAP Spreads	9.4	**10.0**	**12.5**

[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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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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