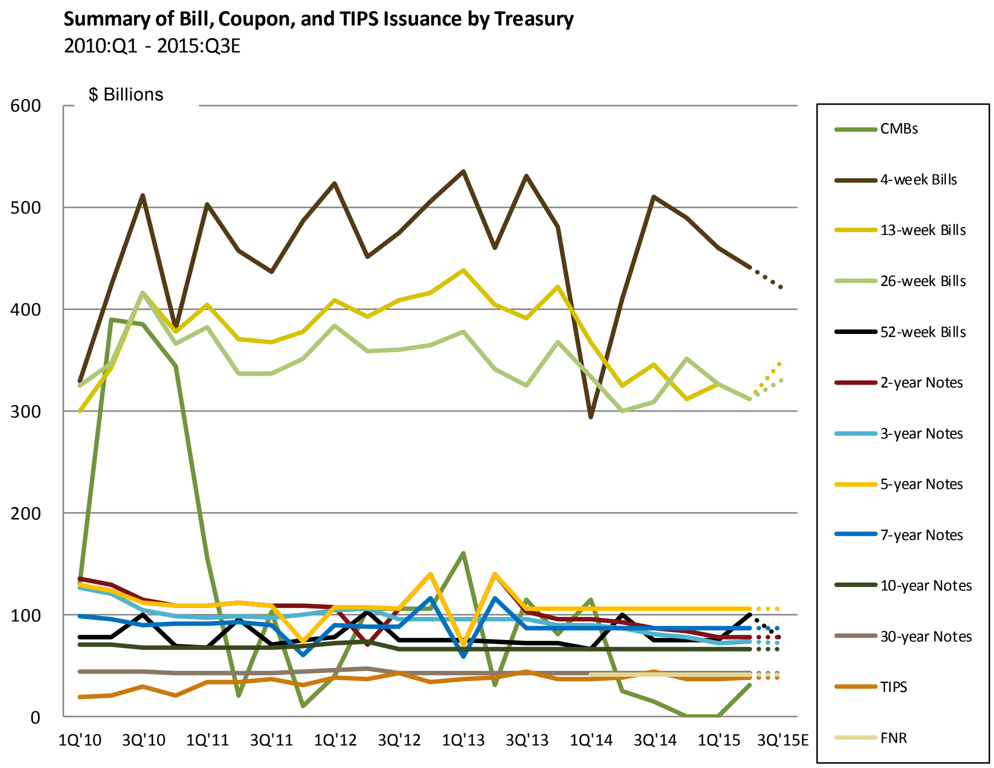
GOVERNMENT FORECAST



Source: U.S. Treasury, 3Q'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 $186.5 billion in the third quarter of 2015, 229.7 percent higher than the $56.6 billion issued in 2Q'15 (actuals include cash management balances). SIFMA's forecast for the third quarter issuance of net marketable debt is more than double the Treasury's May debt issuance estimate of $66.0 billion.[2] The net bill issuance in 3Q'15 is expected to be $25.0 billion, much higher than the $82.9 billion redeemed during the second quarter, while the net issuance of coupons is expected to be $161.5 billion, a 15.8 percent increase from $139.5 billion issued in the previous quarter.

Excluding cash management bills (CMBs), total net issuance of Treasury bills, notes, and bonds in 2Q'15 stood at $26.6 billion, an 81.2 percent decrease from the net issuance of $141.2 billion in the prior quarter. Roughly $30.0 billion in CMBs was issued in 2Q'15 after two consecutive quarter without new CMBSs.

The total 2Q'15 net issuance of Treasury securities, including CMBs, stood at $56.6 billion, 59.9 percent below the $141.2 issued on net in 1Q'15 and in line with the Treasury's May estimate of $59.0 billion for the second quarter of 2015.

TREASURY COUPON ISSUANCE

The median forecast for net issuance of Treasury coupon securities (notes and bonds) is $161.5 billion for the third quarter, 15.8 percent above the 2Q'15's net issuance of $139.5 billion.[3] Gross coupon issuance is expected to total approximately $532.5 billion, a 0.3 percent increase from the

[1] The survey was conducted beginning on July 14, 2015 and ending on July 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 May borrowing estimates can be found here.

[3] Net coupon issuance projections for the third quarter issuance ranged from $133 billion to $170 billion.

$530.9 billion issued in the prior quarter. The gross issuance of notes and bonds is expected to stay flat for all maturities, with all notes and bonds issuance expected to stay exactly the same as in 2Q'15. The forecasted stability in issuance of coupons is constant 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]

Survey respondents expect the Treasury to finish 3Q'15 with $220.0 billion in cash, 25.7 percent higher than the $175.0 billion estimated by Treasury in May for an end-September 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 68.7 months as of March 31, 2015 (most recent data available), slightly up from 68.3 months as of December 31, 2014 and well above the three decade average of 58.9 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 2Q'15, $41.0 billion in Floating Rate Notes (FRNs) was issued, flat from the first quarter of 2015. After an inaugural FRN auction in January 2014, supply of FRNs has been constant at $41.0 billion per quarter and the demand for FRNs has been high with an average bid-to-cover ratio of 4.2 since the inaugural auction. The survey respondents expect the Treasury to continue issuing FRNs at the same pace of $41.0 billion in 3Q'15.

TIPS ISSUANCE

Survey respondents forecast that the Treasury will issue $38.0 billion of Treasury Inflation-Protected Securities (TIPS) in the third quarter of 2015, down 0.2 percent from the $38.1 billion issued in 2Q'15. Bid-to-cover ratios for TIPS have declined in recent years to an average of 2.3 in 2Q'15 but they remain elevated relative to pre-2009 averages.

T-BILL ISSUANCE

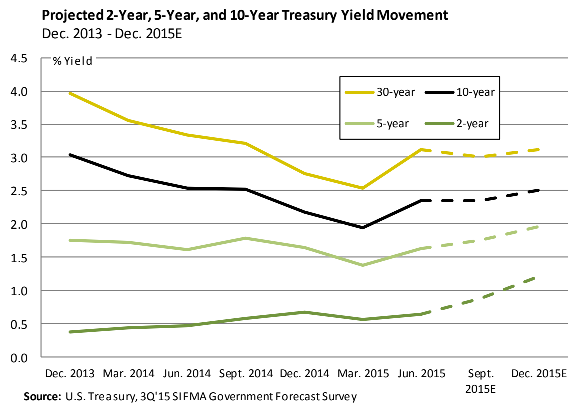
Survey participants expect to see net bill issuance of $25.0 billion in the third quarter, much higher than the net redemption of $82.9 billion in the second quarter. While the forecast of coupon issuance was uniform among survey respondents, the expectations for the net bill issuance varied widely among the survey respondents,[6] showing no consensus in the direction or the scale of net bill issuance in 3Q'15 (the forecast ranged from the net redemption of $100.0 billion to net issuance of $62.0 billion). The gross issuance of bills is expected to increase by 7.4 percent to $1.25 trillion in 3Q'15, from $1.16 trillion issued in the prior quarter. The composition of bill issuance is expected to change slightly: the issuance of 4-week and 52-week bills is forecasted to decrease by 4.5 percent and 25.0 percent, respectively, while the issuance of 13-week and 26-week bills is projected to increase by 12.2 percent and 5.8 percent, respectively, in 3Q'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

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 when it decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.[7]

[4] Minutes of the Meeting of the TBAC, February 4, 2015.
[5] Treasury Presentation to TBAC, May 6, 2015.
[6] Net bill issuance projections for 3Q'15 ranged from redemption of $100 billion to issuance of $62 billion.
[7] Statement from the FOMC Meeting, July 28-29, 2015.

This quarter the survey asked the participants when they expect the Fed to raise the target rate. Respondents were split between 'September 2015' and 'later than October 2015' with 52 percent indicating that they are expecting the Fed to raise the target rate later than October 2015 and 48 percent favoring September 2015 as the timing of the first rate increase.



Treasury Yield Projections and Ranges

	Jun. 30, 2015	Sept. 30, 2015E	Dec. 31, 2015E
2 year Treasury Note	0.64	**0.88** (0.70 - 1.26)	**1.20** (0.85 - 1.34)
5 year Treasury Note	1.63	**1.75** (1.60 - 2.00)	**1.97** (1.75 - 2.15)
10 year Treasury Note	2.35	**2.36** (2.20 - 2.60)	**2.50** (2.05 - 2.60)
30 year Treasury Bond	3.11	**3.00** (2.45 - 3.30)	**3.13** (2.88 - 3.50)

Source: 3Q'15 SIFMA Government Forecast Survey

Summary of Risks to Rate Forecast

	Risks to Upside
#1	Strong global and domestic growth acceleration, Fed hikes twice this year
#2	Strong jobs reports leading into September, surprise jump in oil prices and inflation indicators
#3	Stronger improvement in inflation outlook, labor participation rate, and/or wage inflation
#4	Swift European/Chinease recovery, acceleration in wage growth and inflation, recovery in commodity markets
#5	Commodities rebound sharply and inflation expectations rise
#6	*No response*
	Risks to Downside
#1	Fed does not hike this year
#2	Fed relent and liftoff slides into 2016
#3	Global growth slowdown, oil staying low, USD strengthening, lower term premia due to risk-off trade
#4	Persistent low inflation, financial contagion from Europe, early Fed hike
#5	Fed doesn't hike in Sep and becomes difficult to go until very late 2016/early2017, "Conundrum" -- risk the market doesn't react to moves in the policy rate
#6	*No response*

Source: 3Q'15 SIFMA Government Forecast Survey

U.S. TREASURY YIELD OUTLOOK

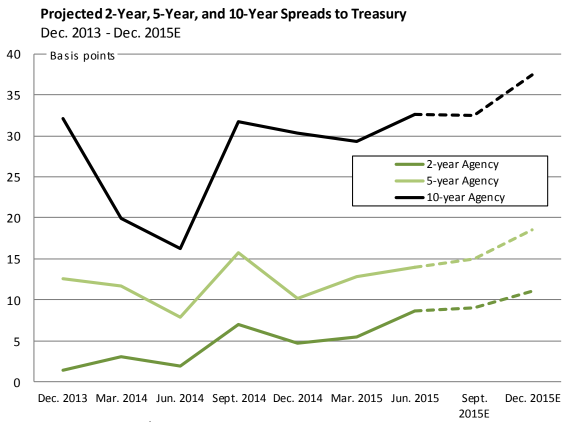
In 2Q'15, the Treasury yields increased for all maturities. Two-year rates increased to 0.64 percent at the end of June from 0.56 percent in March 2015, the 5-year yields increased to 1.63 percent in 2Q'15 from 1.37 percent in the end of March, the 10-year yields increased to 2.35 percent from 1.94 percent in 1Q'15, and 30-year yields increased to 3.11 percent in June 2015 from 2.54 percent in March. Survey respondents forecast benchmark yields to continue increasing across all other maturities except 30-year in the next two quarters of 2015. The 2-year Treasury yields are expected to increase to 0.88 percent by September 2015 and further to 1.20 percent by December 2015. Five-year yields are projected to increase to 1.75 percent and then increase to 1.97 in 4Q'15. Similarly, for 10-year maturities, survey responders expect a gradual increase to 2.36 percent and 2.50 percent at the end of September and December, respectively, while 30-year yields are expected to fall in 3Q'15 to 3.00 percent and rebound in 4Q'15 to 3.13 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 commodity prices.

In contrast, the main risks noted on the downside (lower-than-expected yields) were: the Fed not increasing interest rates in 2015, US economic deterioration, financial contagion from Europe, US dollar strengthening, and fall in inflation.



Source: U.S. Treasury, 3Q'15 SIFMA Government Forecast Survey

Distribution of Duration Weightings

	Strong Over	Over	Neutral	Under	Strong Under
0-3 years	0%	0%	50%	25%	25%
3-7 years	0%	25%	50%	25%	0%
7-10 years	0%	0%	50%	50%	0%
10-30 years	0%	0%	50%	25%	25%

Source: 3Q'15 SIFMA Government Forecast Survey

AGENCIES' COUPON ISSUANCE

In 2Q'15 the total issuance by the four largest Federal agencies stood at \$90.1 billion, down 34.1 percent from \$136.7 billion in 1Q'15.[8] Survey participants forecast total gross coupon issuance by the four largest Federal agencies to increase by 80.9 percent to \$163.0 billion in the third quarter of 2015. The projections reflect an increase in all four agencies issuance. Fannie Mae is expected to issue \$16.5 billion in 3Q'15, up 35.4 percent from 2Q'15, the Federal Home Loan Banks are expected to issue \$89.5 billion in coupons in 3Q'15, a 128.9 percent increase from their 2Q'15 issuance of \$39.1 billion, Federal Farm Credit Banks' issuance is projected to increase to \$22.5 billion from \$20.2 billion in 2Q'15, while the issuance of Freddie Mac is expected to increase by 85.5 percent to \$16.5 billion. Survey respondents indicated that 54.9 percent of 3Q'15's issuance volume is expected to come from the Federal Home Loan Banks (FHLBs), about 21.2 percent from Freddie Mac, 13.8 percent from Farm Credit System Banks, and the balance from Fannie Mae.

SPREADS OUTLOOK

The agency-to-Treasury yield spreads increased in 2Q'15 across all maturities: for 2-year agency the spread widened to 8.6 basis points (bps) from 5.4 bps in 1Q'15 and the 5-year spread increased to 14.0 bps from 12.8 bps in the previous quarter. The 10-year spread widened to 32.7 end-June from 29.4 bps end-March 2015. Survey respondents expect agency-to-Treasury yield spreads to widen across short and medium-term maturities through December 2015 while the 10-year maturities are expected to tighten slightly in by September 2015 and then widen in 4Q'15. Two-year spreads are projected to increase to 9.0 bps in 3Q'15 and 11.0 bps in 4Q'15, 5-year spreads are expected to increase to 15.0 bps end-September and increase further to 18.5 bps end-December, and 10-year spreads are projected to slightly tighten to 32.5 bps by the end of 3Q'15 and widen to 37.5 bps by December 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 with an occasional strong under-weigh for all maturities (summary of the can be found in the table on the left side).

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

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]	2Q'15		**3Q'15E**
Net Coupon Issuance	139.5		**161.5**
Gross Coupon Issuance	*530.9*		***532.5***
Gross Coupon Redemptions	*391.4*		***370.5***
Net Bill Issuance	(82.9)		**25.0**
Gross Bill Issuance	*1,164.0*		***1,250.0***
Gross Bill Redemptions	*1,276.9*		***1,188.0***
Quarter end cash balance (expected)			**220.0**
U.S. Treasury Quarterly Gross New Issuance			
4 week Bill	440.0		**420.0**
13 week Bill	312.0		**350.0**
26 week Bill	312.0		**330.0**
52 week Bill	100.0		**75.0**
2 year Treasury Note	78.0		**78.0**
3 year Treasury Note	72.5		**72.0**
5 year Treasury Note	105.1		**105.0**
7 year Treasury Note	87.1		**87.0**
10 year Treasury Note	66.5		**66.0**
30 year Treasury Bond	42.4		**42.0**
Floatng Rate Notes	41.1		**38.0**
Treasury Inflation-Indexed Securities	38.1		**41.0**
Federal Agency: Projected Total Gross Coupon Debt Issuance[2]			
Fannie Mae	12.2		**16.5**
Freddie Mac	18.6		**34.5**
Federal Home Loan Bank System - Office of Finance	39.1		**89.5**
Federal Farm Credit Banks Funding Corporation	20.2		**22.5**
			163.0
		FY estimates	
Federal Budget Deficit Estimate - FY2015		**460.0**	
Federal Budget Deficit Estimate - FY2016		**475.0**	

Rates & Spreads Outlook

	6/30/2015	**9/30/2015E**	**12/31/2015E**
Interest Rates (End of Quarter in %Yield)			
2 year Treasury Note	0.56	**0.88**	**1.20**
5 year Treasury Note	1.37	**1.75**	**1.97**
10 year Treasury Note	1.94	**2.36**	**2.50**
30 year Treasury Bond	2.54	**3.00**	**3.13**
Spreads to Treasury (End of Quarter in Basis Points)			
2 year Agency Benchmark/Reference Notes[3]	8.6	**9.0**	**11.0**
5 year Agency Benchmark/Reference Notes[3]	14.0	**15.0**	**18.5**
10 year Agency Benchmark/Reference Notes[3]	32.7	**32.5**	**37.5**
2 Year SWAP Spreads	25.4	**25.0**	**25.0**
5 Year SWAP Spreads	13.8	**15.0**	**15.0**
10 Year SWAP Spreads	9.9	**10.0**	**11.0**

[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

Primary Dealers Committee

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.

CAPITAL MARKETS

Robert Toomey
Managing Director and Associate General Counsel, Rates Division

SIFMA RESEARCH

Justyna Podziemska
Senior Associate, Research