

# NORTHERN CALIFORNIA POWER AGENCY

## MAY 2015 FINANCE COMMITTEE MARKET UPDATE

May 13, 2015



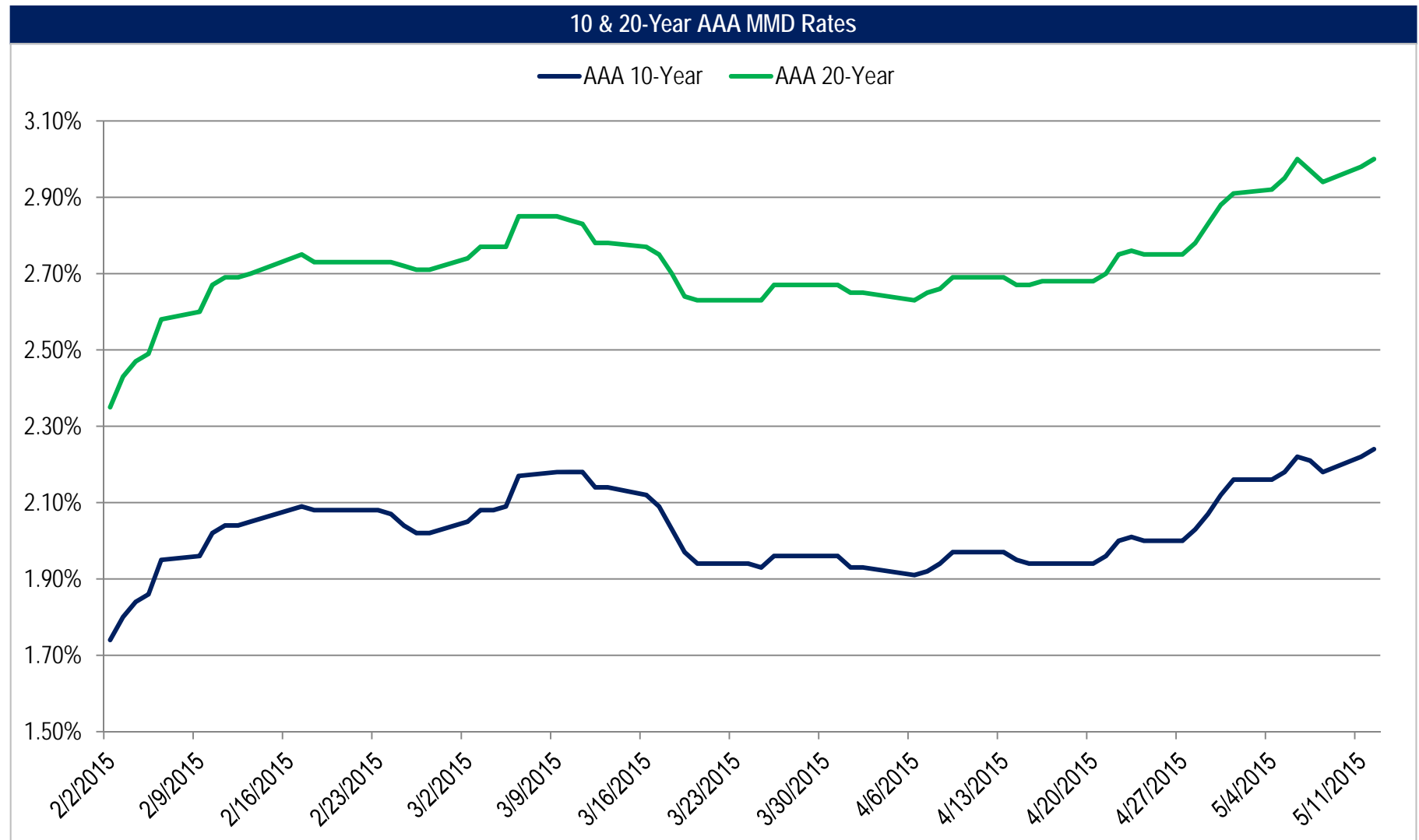
## MARKET SNAPSHOT

- While interest rates remain at extremely low levels, the municipal market has been marked by a recent run up in rates driven by large supply
  - Municipal rates have significantly underperformed treasury rates

May 13, 2015							
Year	Maturity	MMD	UST	Year	Maturity	MMD	UST
1-Year	2016	0.22%	0.25%	16-Year	2031	2.82%	-
2-Year	2017	0.60%	0.61%	17-Year	2032	2.88%	-
3-Year	2018	0.97%	1.0-%	18-Year	2033	2.92%	-
4-Year	2019	1.20%	-	19-Year	2034	2.96%	-
5-Year	2020	1.40%	1.58%	20-Year	2035	3.00%	2.75%
6-Year	2021	1.60%	-	21-Year	2036	3.03%	-
7-Year	2022	1.79%	-	22-Year	2037	3.06%	-
8-Year	2023	1.97%	-	23-Year	2038	3.09%	-
9-Year	2024	2.13%	-	24-Year	2039	3.12%	-
10-Year	2025	2.24%	2.28%	25-Year	2040	3.15%	-
11-Year	2026	2.37%	-	26-Year	2041	3.17%	-
12-Year	2027	2.49%	-	27-Year	2042	3.18%	-
13-Year	2028	2.60%	-	28-Year	2043	3.19%	-
14-Year	2029	2.68%	-	29-Year	2044	3.20%	-
15-Year	2030	2.76%	-	30-Year	2045	3.21%	3.02%

## BENCHMARK TAX-EXEMPT INTEREST RATE PROGRESSION

- Since the last Finance Committee meeting in February, and for most of 2015, rates have trended upward in small but steady adjustments

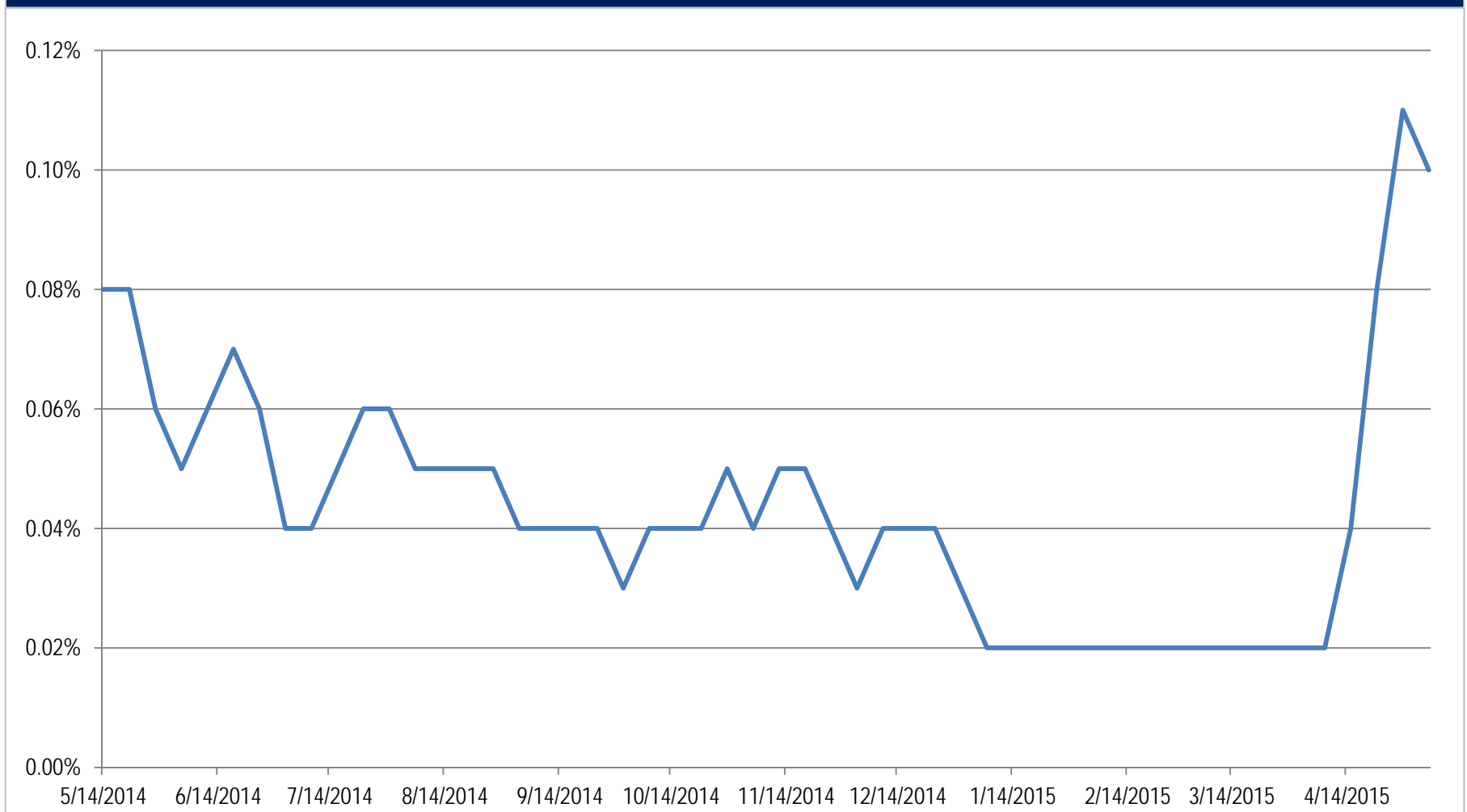


Source: Thomson Reuters

## SHORT-TERM INTEREST RATE HISTORY

- Short-term rates remain at historically low levels but spiked at the end of April as a result of tax season

SIFMA Rates Over Last Year  
(May 2014 to May 2015)



Source: Bloomberg

## RECENT SIFMA RATE CHANGE

- *Recent Resets:*
- SIFMA reset at 4 bps on April 15, 2015, +2 bps vs. April 8, 2015
- SIFMA reset at 8 bps on April 22, 2015, +4 bps vs. April 15, 2015
- SIFMA reset at 11 bps on April 29, 2015, +3 bps vs. April 22, 2015
- SIFMA reset at 10 bps on May 6, 2015, -1 bps vs. April 29, 2015
  
- *Market Color : The rate increase is due to continued weakness in the market post-tax time*
  
- The primary driver of the increase is the fund outflows experienced by tax free money funds. The market has seen a decrease in investor demand for VRDOs relative to existing supply as investors have freed up cash for April 15 tax payments
  - Certain VRDOs have daily and weekly put option for investors—so it is typical to see a supply/demand imbalance this time of year
  - As a result, weekly VRDO rates have increased by 3-7 bps; Since SIFMA is an index of high grade VRDOs, it has followed suit
  
- The market is generally softest between the 2-3 business days either side of April 15, after which cash begins to return. That has not been the case this year: dealer inventories of VRDOs have increased 25-30% since the traditional high on April 15
  - As of April 28, 2015, there were \$15 billion VRDNs available for sale by Street dealers, but average weekly inflows are just \$2-3 billion
  - Thus, it is the expectation that it will take a bit longer for the market to digest the available supply than in years past
  - There are, of course, many other market factors that could influence SIFMA rates going forward and while there is no guarantee that they will return to 2 bps, this provides some background on the seasonal factors behind the recent increase