

## Current Rate Environment

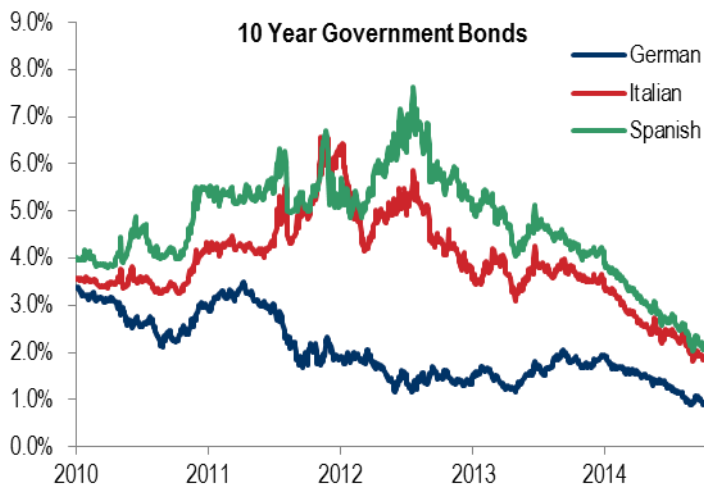
Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.16%	0.16%	0.00% ○
3-Month LIBOR	0.23%	0.23%	0.00% ○
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
<b>US Treasury Yields</b>			
2-year Treasury	0.50%	0.49%	0.01% ↑
5-year Treasury	1.58%	1.61%	(0.03%) ↓
10-year Treasury	2.30%	2.34%	(0.04%) ↓
<b>Swaps vs. 3M LIBOR</b>			
2-year	0.77%	0.76%	0.01% ↑
5-year	1.78%	1.81%	(0.03%) ↓
10-year	2.49%	2.53%	(0.04%) ↓

## Fed Speak & Economic News:

- October's payroll report, released on Friday, justified the previous week's statement by the Federal Reserve that labor market conditions have been improving. By most measures, the labor market showed positive signs: Nonfarm payrolls increased by 214k (the longest 200k+ streak since 1995); the previous two month's figures were revised higher by 31k; more people joined the labor force (the participation rate increased to 62.8 percent from 62.7 percent); average weekly hours increased (up 0.1 hours to 34.6 hours per week); and the unemployment rate decreased (down to 5.8 percent, below the Fed's projection for year-end).
- Despite all of this, two notable misses drove rates lower by 5-9 bps across the curve on Friday: The lack of significant wage growth and a smaller-than-expected increase in nonfarm payrolls disappointed market participants in what was otherwise widely considered a strong report. What was quite interesting was analysts' optimism prior to the report, with early estimates near 232k and some analysts increasing their estimates to as high as 250k in the hour before the report's release. Nevertheless, the current implied fed funds futures rates suggest that market participants believe that the timeline for the first hike remains on course (around late 2Q15).
- Aside from the labor report, we had a politically significant week in which Republicans gained seven seats in the Senate, giving the GOP control of both chambers of Congress for the first time since 2006. Investors reacted positively to the news early in the week on the premise that Republicans would pressure the Fed to raise rates sooner. The GOP majority makes it probable that Richard Shelby will become chairman of the Senate Banking Committee, which is one of the committees responsible for overseeing the Fed. Shelby has been a notable critic of Janet Yellen, voting against her appointment as vice chairwoman in 2010 and again last year during her bid to succeed former Fed Chairman Ben Bernanke. It is also anticipated that Republicans will look to shed their obstructionist image. Expected to become the next Senate Majority Leader, Mitch McConnell vowed to avoid the sort of political brinkmanship that led to a near sovereign debt default in the previous few years.
- The headline event this week will be the US Treasury holding its \$26 billion 3-year note auction, \$24 billion 10-year note auction, and \$16 billion 30-year bond auction. However, the auction schedule will be interrupted by tomorrow's holiday, Veteran's Day.

## Draghi Promises More

### 10 Year Government Bonds



ECB President Mario Draghi provided calm to European investors as weak data continued to soak through the European Union. With retail sales surprising to the downside and manufacturing data revised lower from initial prints, Draghi made clear that the central bank has authority to increase its balance sheet to €1 trillion through the purchase of ABS and covered bonds. He also asserted that the ECB has consensus among members to take additional "non-standard" monetary action in the event that existing measures are ineffective in combating disinflationary risks. QE efforts could come as early as the first quarter of 2015.

## U.S. Economic Data

- Manufacturing PMI was reported higher to 56.2, beating consensus of 55.9
- Construction spending disappointed, printing at -0.4% MoM vs consensus of 0.7%
- The unemployment rate ticked lower to 5.8 percent vs expectations of 5.9 percent
- Nonfarm payrolls increased by 214k, missing estimates of 235k

Date	Indicator	For	Forecast	Last
11-Nov	NFIB Small Business Optimism	Oct	95.8	95.3
11-Nov	Wholesale Inventories MoM	Sep	0.2%	0.7%
13-Nov	Monthly Budget Statement	Oct	(\$112.9B)	-
14-Nov	Retail Sales Advance MoM	Oct	0.2%	(0.3%)
14-Nov	Import Price Index	Oct	(1.5%)	(0.5%)

Source: Bloomberg

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