

Current Rate Environment

Short Term Rates	Thursday	Prior Week	Change
1-Month LIBOR	0.20%	0.20%	0.00% ○
3-Month LIBOR	0.33%	0.32%	0.01% ↑
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○

US Treasury Yields

2-year Treasury	0.62%	0.72%	(0.10%) ↓
5-year Treasury	1.43%	1.60%	(0.17%) ↓
10-year Treasury	2.04%	2.20%	(0.16%) ↓

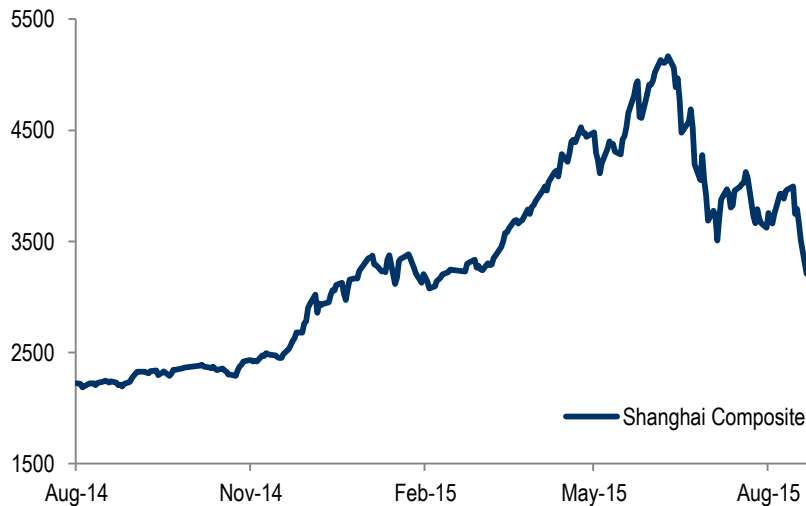
Swaps vs. 3M LIBOR

2-year	0.90%	1.02%	(0.12%) ↓
5-year	1.60%	1.77%	(0.17%) ↓
10-year	2.16%	2.32%	(0.16%) ↓

Fedspeak & Economic News:

- US Treasury yields drifted lower by as many as 15 basis points last week, after the release of dovish FOMC minutes, a rise in risk aversion, and a selloff in commodities.
- In the United States, the highlight of the week was the release of the July FOMC minutes (Wednesday), which were perceived as dovish by the majority of market participants. Committee members appeared split on the idea of beginning the hiking cycle in September, when the Fed will meet next. The expected path of inflation seems to be the line drawn in the sand and whether it will soon meet the criteria for raising short-term rates. Members on the other side of the aisle argued that the economy and labor market have already made material progress. However, events since the meeting have probably weighed on the Fed's outlook, with more committee members likely hopping aboard the bandwagon of not being reasonably confident that it is time for a rate hike.
- Some committee members noted that they "continued to see downside risks to inflation from the possibility of further dollar appreciation and declines in commodity prices". It appears their concerns were warranted: The WTI prompt has declined by about 17 percent since the Fed's meeting and briefly traded below a \$40 handle on Friday (the last time it did so was right after the collapse in oil prices in 2008), while the greenback has appreciated by 1.5 percent since then, according to the Fed's Trade-Weighted U.S. Dollar Index. As a result, the Fed's measure of expected inflation, the 5-year forward breakeven inflation rate (the yield difference between nominal Treasury bonds and Treasury inflation-protected securities), has declined by 21 basis points since the FOMC concluded its last meeting on July 29. Uncertainty surrounding China has been the catalyst of a flight-to-quality.
- Global risk aversion reared its head as concerns about China's growth outlook resurfaced when the People's Bank of China devalued the yuan. The move served as a signal to markets that Chinese growth could slow and since the country's economy is less transparent, relatively speaking, uncertainty is high. Keep in mind that the July FOMC meeting happened *before* China's central bank made a move, and since so much emphasis will be placed on the first rate hike, the fact that the market has pinned less than a 25 percent likelihood on a Fed hike in September (source: Bloomberg) should reinforce the notion that Fed could wait, yet again.

Shanghai Composite, Y-O-Y



A sell-off of risk assets around the world seems to have been sparked by the Chinese central bank's decision to remove the yuan's peg to the US dollar. While it was an effort to get ahead of an increasingly likely rate hike from the Federal Reserve, global indices have been dropping precipitously as the Shanghai Composite erased all of 2015's gains. Now representing 15 percent of the world's economy and the largest driver in worldwide growth, investors are positioning themselves as they determine extent of China's weakness

Sources: Bloomberg

The Week Ahead

- There will be Fedspeak from Federal Reserve Bank of Atlanta President Dennis Lockhart (Monday) and New York President William C. Dudley (Wednesday).
- We will see the release of another reading on second quarter U.S. GDP growth (Wednesday). Expectations call for an expansion of 3.2 percent, which would be an upward revision to the previous figure.

Date	Indicator	For	Forecast	Last
25-Aug	Consumer Confidence Index	Aug	93.4	90.9
25-Aug	New Home Sales	Jul	510k	482k
26-Aug	Durable Goods Orders	Jul	(0.4%)	3.4%
27-Aug	GDP Annualized QoQ	2Q S	3.2%	2.3%
28-Aug	U. of Mich. Sentiment	Aug F	93.0	92.9
28-Aug	Personal Income	Jul	0.4%	0.4%
28-Aug	Personal Spending	Jul	0.4%	0.2%



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