# Interest Rate Risk Management Weekly Update

August 26, 2013

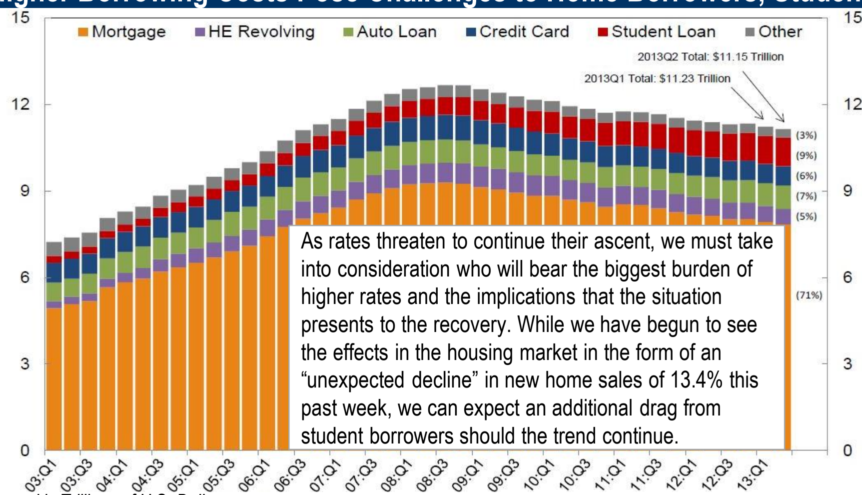
## Current Rate Environment

| Short Term Rates | Friday | Prior Week | Change |
|---|---|---|---|
| 1-Month LIBOR | 0.18% | 0.18% | 0.00% |
| 3-Month LIBOR | 0.26% | 0.26% | 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% |
| **US Treasury Yields** | | | |
| 2-year Treasury | 0.38% | 0.34% | 0.04% ↑ |
| 5-year Treasury | 1.62% | 1.56% | 0.06% ↑ |
| 10-year Treasury | 2.82% | 2.83% | (0.01%) ↓ |
| **Swaps vs. 3M LIBOR** | | | |
| 2-year | 0.61% | 0.52% | 0.09% ↑ |
| 5-year | 1.86% | 1.80% | 0.06% ↑ |
| 10-year | 3.06% | 3.05% | 0.01% ↑ |

### *Fed Speak & Economic News:*

- The week in review demonstrates increasing levels of skittishness as the global investor community braces itself for the FOMC's policy meeting in September. The week began with a nearly empty economic calendar with few headlines to draw the market's attention away from the prior week's Treasury selloff fueled by prospects of Fed policy changes and the release of July's FOMC minutes. After a respite in July, the exodus from Treasuries continued ahead of Wednesday's release of the minutes and the Kansas City Fed's Jackson Hole symposium. The minutes revealed a committee divided on reining in purchases as some were concerned about the strength of the recovery and stubbornly low inflation. Still, most officials expect growth to blossom in the second half of the year as evidenced by the assessment that "almost all participants confirmed that they were broadly comfortable" with the chairman's transmission of the committee's outlook after the June FOMC meeting. It was the June press releases that sparked the first major uptick in long-term rates, during which Bernanke said that contingent on the economy recovering per the committee's expectations, reductions in the pace of purchases would begin sometime later this year and conclude by mid-2014. Rates remained at higher levels as surprisingly positive global manufacturing indicators in the Eurozone and China were printed, and positive domestic industry readings lent further support. However, Friday's deflated new home sales reversed the week's yield increases as market participants grew concerned that higher mortgage rates could curb the housing strength. Investors took kindly to the data in hopes that it would delay the impending cut to stimulus, sending the yield on the 10-year Treasury 1 basis point lower than last week's close of 2.82%.
- As this weekend's Jackson Hole summit drew to a close, several themes surfaced that will set the tone for the FOMC's upcoming policy review in September. While Fed officials continue to offer mixed signals regarding the committee's outlook, ramifications of what analysts have called "Septaper" could develop in the form of higher borrowing costs not only domestically but also for borrowers abroad. Top officials warned that global financial stability is at stake as central banks pull back from accommodative policies, especially in emerging markets. Currency rates could face violent swings due to their "lack of defenses" to prevent potential money outflows as economists at the symposium highlighted the interconnectedness of global economy and U.S. monetary policy. Still, regional presidents maintained that any changes to policy are made in solely the context of domestic economic conditions as the Fed is "a creature of Congress."

## Higher Borrowing Costs Pose Challenges to Home Borrowers, Students




*Note: Debt measured in Trillions of U.S. Dollars*

*Source of Chart Data: Federal Reserve Bank of New York Source of Financial Data: Bloomberg*

## U.S. Economic Data

- Chicago Fed's national activity index hit -0.15 from a revised -0.23 in June, with the number slightly worse than market expectations for -0.10.
- Manufacturing in the Kansas City Fed district rose to 8 in August, beating estimates to maintain July's pace of 6.
- Existing home sales rose 6.5%, improving beyond 1.4% estimate after contracting 1.2% in June. Conversely, new home sales declined 13.4% after June's 8.3% gain, ending the week on a negative note as bond recovered.

| Date | Indicator | For | Forecast | Last |
|---|---|---|---|---|
| 26-Aug | Durable Goods Order | Jul | (7.3%) A | 4.2% |
| 26-Aug | Dallas Fed Manufacturing | Aug | 5.0 A | 4.4 |
| 27-Aug | Richmond Fed Manufacturing | Aug | 0.0 | (11.0) |
| 27-Aug | Consumer Confidence Index | Aug | 79.0 | 80.3 |
| 29-Aug | GDP Annualized QoQ | 2Q S | 2.2% | 1.7% |
| 30-Aug | Personal Income | Jul | 0.2% | 0.3% |
| 30-Aug | Personal Spending | Jul | 0.3% | 0.5% |
| 30-Aug | U. of Michigan Confidence | Aug F | 80.5 | 80.0 |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