Interest Rate Risk Management Weekly Update

March 23, 2015

Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.17%	0.18%	(0.01%)
3-Month LIBOR	0.27%	0.27%	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	0.58%	0.66%	(0.08%)
5-year Treasury	1.42%	1.59%	(0.17%)
10-year Treasury	1.93%	2.12%	(0.19%)
Swaps vs. 3M LIBOR			
2-year	0.90%	0.98%	(0.08%)
5-year	1.62%	1.80%	(0.18%)
10-year	2.08%	2.28%	(0.20%)

Fed Speak & Economic News:

- The highlight of last week was the FOMC meeting, which concluded on Wednesday. As expected, the word "patient" was removed from the FOMC statement; however, changes in tone and downward forecast revisions were viewed by market participants as particularly dovish. The FOMC lowered its assessment of economic activity, saying that it "has moderated somewhat" compared to the "solid pace" in January's statement, citing softer housing and manufacturing data, although weakness may be attributed to adverse weather in certain parts of the country. While forward rate guidance was eliminated, concerns over long-term unemployment were made clear as forecasts for 2015 through 2017 were sharply lower. This suggests that FOMC members see additional slack in the labor market which likely influenced the stretched rate hike timeline. Investors will look to the meeting's minutes released in early April for clarification.
- Janet Yellen and the rest of the FOMC members indirectly voiced their concerns about the dollar, as commentary of the effect on weak export growth and increased imports alluded to the recent currency gains. Following the Fed statement and Yellen's press conference, volatility in foreign exchange markets increased considerably. Notably, the euro-dollar exchange rate, the most traded pair of currencies proceeded to move nearly 4% against the dollar, the largest single day move in 15 years. The Fed's subtle acknowledgement of the rapidly appreciating greenback has since curbed the momentum building in the dollar, but it remains to be seen how long the effects will last. Market participants have skewed their expectations of a rate hike from June to September, though the Fed's fully data dependent mode will likely mean continued rate volatility, especially on the heels of major economic releases, i.e. labor reports. Should the labor market continue experiencing robust gains and the negative effects of a strong dollar dissipate quicker than expected, the Fed might be in a position to raise rates as soon as its June meeting.
- Effects of lower oil prices and the committed ECB bond purchases appear to be having a positive effect on the eurozone as its recovery gains momentum. Real interest rates have fallen and easing credit conditions suggest the private sector is gaining strength. The boost in spending from lower energy prices may help bolster private sector consumption, which will be a major driver of the recovery. The eurozone remains sensitive to global developments and the saying "if the US sneezes, Europe catches a cold" sums up the skittish market sentiment.

FOMC Economic Projections, March 2015

FOMC projections(Q4/Q4 % chg)	2015	2016	2017	Longer Run
Real GDP	2.3 to 2.7	2.3 to 2.7	2.0 to 2.4	2.0 to 2.3
December Projection	2.6 to 3.0	2.5 to 3.0	2.3 to 2.5	2.0 to 2.3
Unemployment rate (Q4 avg)	5.0 to 5.2	4.9 to 5.1	4.8 to 5.1	5.0 to 5.2
December Projection	5.2 to 5.3	5.0 to 5.2	4.9 to 5.3	5.2 to 5.5
PCE price index	0.6 to 0.8	1.7 to 1.9	1.9 to 2.0	2.0
December Projection	1.0 to 1.6	1.7 to 2.0	1.8 to 2.0	2.0
Core PCE price Index	1.3 to 1.4	1.5 to 1.9	1.8 to 2.0	NA
December Projection	1.5 to 1.8	1.7 to 2.0	1.8 to 2.0	NA
Median Fed Funds Target	0.63	1.63	2.63	3.50
December Projection	1.13	1.88	3.13	3.50

While the elimination of the use of forward rate guidance was appealing to the more hawkish FOMC members, the reduction in unemployment forecasts has added flexibility for the more dovish members who now consider additional labor market slack as a factor in delaying the first rate hike. Median forecasts for fed funds target rates have come down in 2015 through 2017, but the range of forecasts has tightened compared to December's release.

Sources: Bloomberg

The Week Ahead

- Numerous Fed officials are scheduled to speak this week, including FOMC voters John Williams (San Francisco Fed President), Stanley Fischer (Fed Vice Chairman), Charles Evans (Chicago Fed President), and Dennis Lockhart (Atlanta Fed President).

Date	Indicator	For	Forecast	Last
24-Mar	CPI YoY	Feb	0.2%	(0.7%)
24-Mar	Markit US Manufacturing PMI	Mar P	54.50	55.10
24-Mar	New Home Sales	Feb	469K	481K
25-Mar	Durable Goods Orders	Feb	0.2%	2.8%
27-Mar	GDP Annualized QoQ	4QT	2.4%	2.2%
27-Mar	U. of Mich. Sentiment	4QT	0.1%	0.1%

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