Interest Rate Risk Management Weekly Update

April 13, 2015

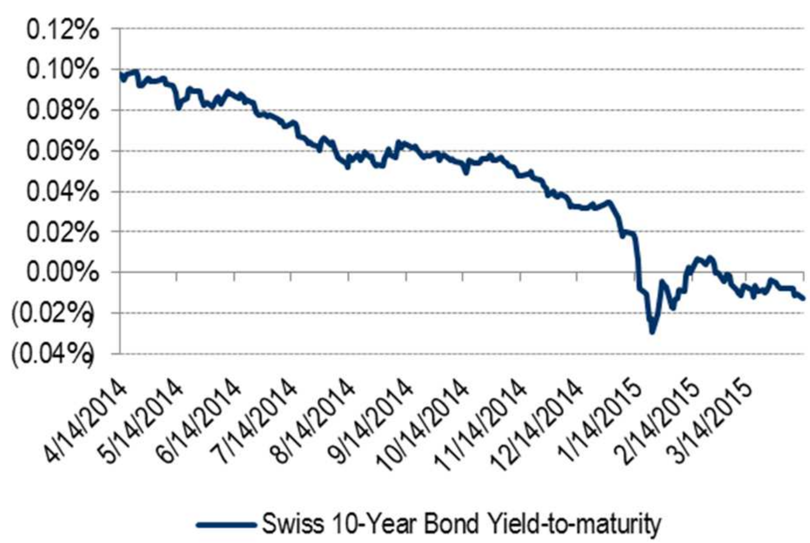
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.18%	0.18%	0.00%
3-Month LIBOR	0.28%	0.27%	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	0.56%	0.48%	0.08%
5-year Treasury	1.40%	1.25%	0.15%
10-year Treasury	1.95%	1.84%	0.11%
Swaps vs. 3M LIBOR			
2-year	0.87%	0.79%	0.08%
5-year	1.60%	1.48%	0.12%
10-year	2.09%	2.00%	0.09%

Fed Speak & Economic News:

- Is the Fed still on track to raise interest rates this summer? That is the main question that economists, investors, and borrowers are asking themselves, especially against a backdrop of dovish talk from Fed members and disheartening economic data. Recent Fedspeak and the March FOMC minutes, released last Wednesday, have offered up some important considerations.
- The strength of the US dollar has affected the Fed's outlook for the US economy. In fact, the March minutes revealed that the main driver for the Fed's lower growth forecasts in 2015, 2016, and 2017 was the appreciation of the greenback. More specifically, several members "anticipated that the effects of energy price declines and the dollar's appreciation would continue to weigh on inflation in the near term." The dollar began its ascent in value last summer and moved sharply higher last month before settling into range bound trading more recently. While a stronger greenback is the result of a robust US economy, it is likely weakness in eurozone economies and Japan that are the main motivators. Will the dollar continue to strengthen? It is hard to see a scenario where the dollar weakens significantly in the near-to-medium term, but the Fed is only concerned with the stabilization of the dollar's value. According to the minutes, "further improvement in the labor market, a stabilization of energy prices, and a levelling out of the foreign exchange value of the dollar were all seen as helpful in establishing confidence that inflation would turn up."
- Not all market participants are convinced that a summer interest rate increase is off of the table. The minutes revealed that "several" policy makers favor an increase in June and that some members were concerned that keeping rates near zero while the economy is growing would add to the risk of developing financial bubbles. Some pundits argue that if the Fed is truly data dependent, then we just are not there yet. Since the significant decline in Treasury yields that followed the release of March's payrolls report, the market has reversed itself and now yields are trading at levels roughly where they were before the rally.
- At the beginning of the year, the futures markets had priced in three rate increases of 25 basis points each, although the third was at a very low probability. Now, futures imply only one rate hike this year and it has been pushed back from summer to fall. Only time will tell when the Fed will hike, however, a few underwhelming economic data points are unlikely to alter the Fed's policy course.

Switzerland Became the First Country to Issue at a Negative Yield



While the graph to the left depicts that the Swiss 10-year bond has traded at a negative yield on the secondary market, never before has any country held an auction where it *issued* bonds at a negative yield. Switzerland effectively became the first country to make investors pay for the privilege of lending it money for ten years. It will not be the last: Roughly one third of eurozone government debt now carries negative yields, a process that has been accelerated by the European Central Bank's asset-buying program. This is one of the reasons that the US dollar has rallied; yields elsewhere are very low.

Sources: Bloomberg

The Week Ahead

- The European Central Bank will conclude its meeting on Wednesday, and probably keep things par for course to allow its quantitative easing program to take greater effect
- On Tuesday, the International Monetary Fund will issue its full report on the global economy
- The Fed's Beige Book, a survey based on reports of the 12 Federal Reserve regional banks, will be released on Wednesday

Date	Indicator	For	Forecast	Last
14-Apr	Retail Sales Advance MoM	Mar	1.0%	(0.6%)
14-Apr	PPI Final Demand MoM	Mar	0.2%	(0.5%)
15-Apr	Industrial Production MoM	Mar	-0.3%	0.1%
15-Apr	Empire Manufacturing	Apr P	7.17	6.90
16-Apr	Housing Starts	Mar	1040K	897K
17-Apr	CPI MoM	Mar	0.3%	0.2%
17-Apr	U. of Mich. Sentiment	Apr P	94.0	93.0
17-Apr	Leading Index	Mar	0.3%	0.2%

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