

# Interest Rate Risk Management Weekly Update

March 31, 2014

## Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.15%	0.15%	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	0.45%	0.43%	0.02% ↑
5-year Treasury	1.75%	1.71%	0.04% ↑
10-year Treasury	2.72%	2.74%	(0.02%) ↓
<b>Swaps vs. 3M LIBOR</b>			
2-year	0.62%	0.61%	0.01% ↑
5-year	1.88%	1.85%	0.03% ↑
10-year	2.89%	2.91%	(0.02%) ↓

## Fed Speak & Economic News:

- Fed Presidents Charles Plosser and Charles Evans' steady-as-she-goes comments had little effect last week. Markets demonstrated negligible incentive to reverse the interest rate ramp-up triggered by Fed Chair Yellen's press conference on the 19<sup>th</sup>. While the two Charleses are considered to be at opposite ends of the policy spectrum, Plosser a hawk and Evans a dove, they were both sending similar, calming signals. Evans expressed, "It's more likely to be late, after the middle of 2015. I'd actually hold off until early 2016 for the funds rate increase." Plosser was even more direct in addressing the market reaction, "I don't think the Fed changed its position. In fact, it tried to say very explicitly in its statement that we believe forward guidance or the expectations have not changed as far as we're concerned." However, the ten-year yield only surrendered two basis points on the week while the shorter-term two- and five-year rates actually increased. On balance, the market is most concerned about the possibility of Fed hikes with the reasoning that tapering is already moving along and there is hardly room for the Fed Funds rate to go lower.
- This morning, Fed Chair Yellen spoke at the National Interagency Community Reinvestment Conference in Chicago; she surprised some Fed watchers by delving into a discussion of monetary policy. "This extraordinary commitment is still needed and will be for some time, and I believe that view is widely shared by my fellow policymakers at the Fed," she said. Mid- to long-term interest rates shrugged this off and were up in early morning trading.
- The most anticipated U.S. economic release of this week will be Friday's unemployment report. The Fed did drop its 6.5% unemployment target in favor of qualitative guidance and in recognition that the headline rate continues to portray false improvement apparently caused by a disheartened labor force. Markets will be especially interested in any uptick in March's outcome which would confirm suspicions that the first two months of the year were indeed inhibited by weather.
- More broadly, the rates market will be very interested in the outcome of Thursday's ECB meeting. On the back of the lowest inflation readings in more than four years, council members have verified that they are considering further non-standard measures which may even include a negative deposit rate. It remains to be seen if there will be any bite behind so much of the ECB's bark.

## EUR/USD: Impacting the European Economy



Source: Bloomberg

The ECB is struggling with falling inflation in the euro area spurring talk of more supportive monetary policy, as discussed above. The strong EUR currency is also weighing on the economy – making exports less attractive to other countries with weaker currencies. We did see strengthening of the USD vs. the EUR after the FOMC meeting when the market brought forward their expectations of a U.S. rate hike. Further dovish action by the ECB this week would weaken the euro further as investors seek higher yields.

## U.S. Economic Data

- U.S. consumer confidence surprised to the high side in March at 82.3
- Durable goods orders rose 2.2% during February vs. 0.8% expected
- Last year's Q4 GDP was revised up to 2.6%
- Personal income and consumption expenditures both posted increases of 0.3% for February. These numbers bear watching as they are key components of GDP

Date	Indicator	For	Forecast	Last
1-Apr	Markit US Manufacturing PMI	Mar F	55.9	55.5
1-Apr	ISM Manufacturing	Mar	53.9	53.2
2-Apr	MBA Mortgage Applications	28-Mar	-	-3.50%
2-Apr	ADP Employment Change	Mar	190K	139K
2-Apr	Factory Orders	Feb	1.20%	-0.70%
3-Apr	Trade Balance	Feb	-\$38.6B	-\$39.1B
3-Apr	Initial Jobless Claims	29-Mar	317K	311K
4-Apr	Change in Nonfarm Payrolls	Mar	195K	175K
4-Apr	Unemployment Rate	Mar	6.60%	6.70%



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