Interest Rate Risk Management Weekly Update

July 27, 2015

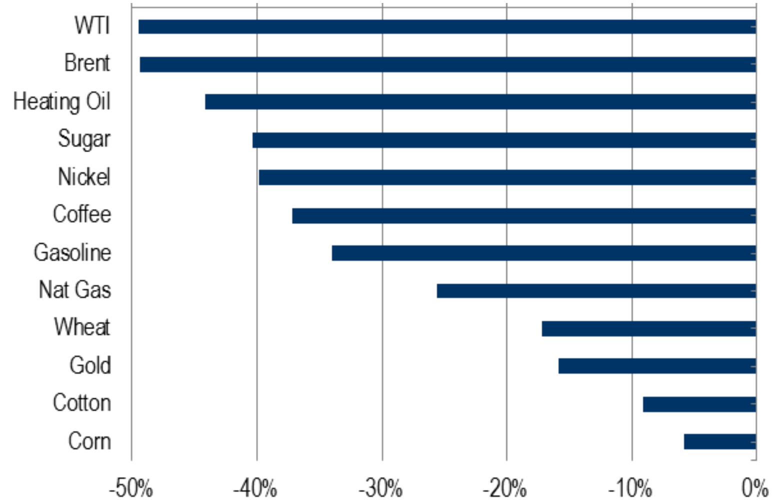
Current Rate Environment

Short Term Rates	Thursday	Prior Week	Change	
1-Month LIBOR	0.19%	0.19%	0.00%	
3-Month LIBOR	0.29%	0.29%	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	0.68%	0.67%	0.01%	↑
5-year Treasury	1.62%	1.67%	(0.05%)	↓
10-year Treasury	2.26%	2.35%	(0.09%)	↓
Swaps vs. 3M LIBOR				
2-year	0.98%	0.98%	0.00%	
5-year	1.80%	1.84%	(0.04%)	↓
10-year	2.40%	2.49%	(0.09%)	↓

Fedspeak & Economic News:

- US Treasury yields sank lower last week after a decline in commodity prices, including a two percent fall in the price of WTI crude. However, the week was rather uneventful and with the Greek debt impasse behind us for now, the market has become less volatile. The highlight of the week ahead will be the two-day FOMC meeting set to conclude on Wednesday (July 29).
- Market participants believe that it is highly unlikely that the Fed will make material changes to its outlook when it concludes its meeting on Wednesday, but they expect the statement to indicate progress towards the Fed's inflation and employment goals is being made. It is also unlikely that the Fed will provide an explicit intention to hike rates, since the April FOMC minutes noted that "most participants felt that the timing of the first increase in the target range for the federal funds rate would appropriately be determined on a meeting-by-meeting basis." The upcoming meeting will be the last before September, and surveys suggest there is a little more than an 80 percent likelihood of a hike in September, while fed funds futures, the most directly-tied market instrument, suggest about a 50 percent chance. The economy has been performing largely in line with the Fed's expectations, especially with full employment on the horizon. Initial jobless claims last week fell to 255,000, which is the lowest level since November 1973, despite a much larger workforce now than at that time. The doves would be quick to point out that the US dollar has strengthened and when coupled with weak global growth, the combination is a recipe for disinflation. However, recent Fedspeak and Fed Chair Janet Yellen's testimony have been on the hawkish side, reiterating that if the economy meets expectations, the Fed is likely to raise rates. The Fed has worked hard to convince markets that the timing of a rate hike is on a data-dependent path and we will see plenty of top tier economic data points between this week and September, including two employment reports and a GDP reading.
- We will see the first reading of second quarter GDP growth on Thursday, a day after the Fed meets. The Atlanta Fed's model, which is widely-followed, suggests a 2.4 percent annual growth rate, which is slightly lower than consensus (2.5 percent). At the June meeting, the Fed indicated that it expects real GDP to average 1.9 percent in 2015. Hence, with a rebound in growth and a relatively low bar set by the Fed, if GDP rebounds handsomely, it will be another reason to expect a hike this year.

Commodity Prices Take Their Tumble



In the last twelve months, commodity prices in the energy, metals, and agriculture spaces have plummeted. According to the Bloomberg Commodities Index, prices have dropped to a 13-year low. On the energy side, the drop is due in part to oversupply, but broadly speaking, a strengthening U.S. dollar weighs down on commodity prices as the two tend to move inversely. The recent gains by the dollar, attributed to Greece's debt woes and the collapse in Chinese stock markets, continue to be noticed by the Fed as they determine the appropriate time for rate "lift-off".

Sources: Bloomberg

The Week Ahead

- The FOMC will conclude its two-day meeting on Wednesday. Market participants do not expect any material changes to policy.
- We will see the first reading of second quarter US GDP on Thursday. Economists expect a rebound after a poor performance during the first three months of the year, on the back of stronger consumer spending.
- Four other countries will report GDP figures this week including the United Kingdom (Tues), Spain (Thurs), Sweden (Thurs), and Canada (Fri).

Date	Indicator	For	Forecast	Last
27-Jul	Durable Goods Orders	Jun	3.2%	3.4%
28-Jul	Consumer Confidence Index	Jul	100.0	101.4
29-Jul	FOMC Rate Decision (Upper Bound)	29-Jul	0.25%	0.25%
30-Jul	GDP Annualized QoQ	2Q A	2.5%	(0.2%)
31-Jul	U. of Mich. Sentiment	Jul F	94.0	93.3
31-Jul	Chicago Purchasing Manager	Jul	50.9	49.4

Group Head
Matt Milcetich 216-689-3141

Cleveland, OH
David Bowen 216-689-3925
Mary Coe 216-689-4606
Dusko Djukic 216-689-4224
Sam Donzelli 216-689-3635
Anand Gomes 216-689-4932
Frank Kuriakuz 216-689-4071

Seattle, WA
Greg Dawli 206-689-2971
Wil Spink 206-689-2972

Documentation
Ramona Berce 413-567-6758
Linda Maraldo 216-689-0516
Marybeth Simon 216-689-0897

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