

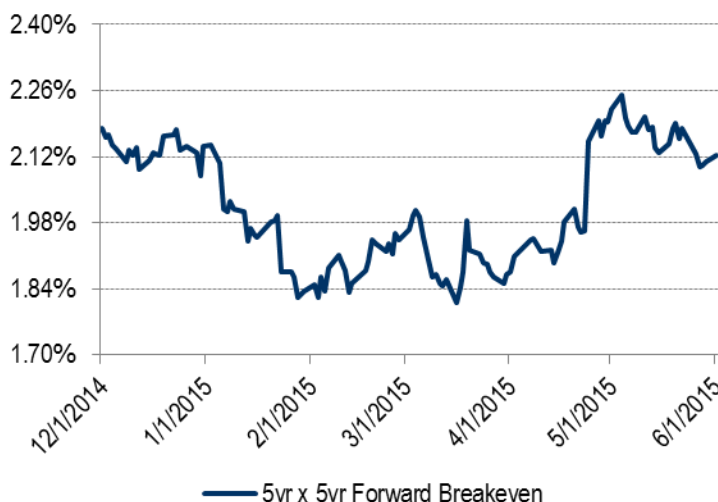
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.18%	0.18%	0.00% ○
3-Month LIBOR	0.28%	0.28%	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	0.61%	0.62%	(0.01%) ↓
5-year Treasury	1.49%	1.56%	(0.07%) ↓
10-year Treasury	2.12%	2.21%	(0.09%) ↓
Swaps vs. 3M LIBOR			
2-year	0.90%	0.93%	(0.03%) ↓
5-year	1.68%	1.75%	(0.07%) ↓
10-year	2.26%	2.33%	(0.07%) ↓

Fed Speak & Economic News:

- The second revision for first quarter GDP showed the economy contracted even more than previously thought at 0.7 percent, though it was better than the expected 0.9 percent contraction. Despite a technical recession for the first three months of the year, preliminary economic data for the second quarter have been encouraging. Housing data for the month of April have been strong, the core durable goods report also strong, and momentum in the labor market and manufacturing sectors has been positive. Also, concerns of disinflation have dissipated, with levels that are expected to approach the Fed's target this year.
- To remain ahead of the curve, top Fed officials had been posturing last week to prepare the market for rate normalization. Fed Chair Janet Yellen recently commented that "because of the substantial lags in the effects of monetary policy on the economy, we must make policy in a forward-looking manner", and she sees a rate hike on the table later this year if the economy continues to improve as it has. San Francisco Fed President Williams expects the Fed will raise rates this year, anticipating that the economy will grow above trend in the coming quarters. Standing in the way of the Fed's utopia is the US dollar that has again found its footing. After a shaky spring, it has resumed its rally, gaining 4.2 percent in the past eleven days. Analyst and investors have renewed confidence in the greenback, though they are more cautious this time around. The Fed has taken notice and is keeping a close eye on the movement against the basket of currencies, noticing the impact it has had on US multinationals and exporters alike who have felt the brunt of the dollar's gains.
- As the Greek saga continues, the likelihood of a forced default ahead of the first June tranche payment due this Friday is increasing. While Greek officials proclaim they are nearing a deal, creditors to the nation are vocal about their differences. Although the IMF agreed last week to allow all of the June payments to occur at the end of the month, there are still significant disagreements that must be settled before Greece can unlock the remaining EUR7.2 billion of the second bailout. Pressure is extraordinary for Prime Minister Alexis Tsipras to defy some of the promises he campaigned on in order to meet the obligations, and he is more likely to find support in the opposition parties in Parliament than his own in approving any measures. As the uncertainty grows, expect market participants to be increasingly twitchy as this week is filled with a number of important economic data releases and a conclusion of an ECB policy meeting that is likely to focus on the Greek issue.

The 5-Year, 5-Years Forward Breakeven Rate Has Trended Higher



The year started off with a trend lower in breakeven rates (the difference between yield on a nominal bond and the real yield on an inflation-linked bond of similar maturity), as investors became worried about the inflation outlook, with consecutive poor consumer inflation prints and deflation fears in Europe. However, breakevens turned around in April, as those fears subsided due to the success of the ECB's easing program and a rebound in energy prices. The pullback in May was probably the result of a weakening in energy prices, a stronger U.S. dollar, and a risk-off sentiment, among other factors. The employment report (Friday) could have a large impact on breakevens, as could the ECB meeting (Wednesday).

Sources: Bloomberg

The Week Ahead

- The nonfarm payrolls figure for May will be released on Friday
- There will be an ECB meeting on Wednesday, a BoE meeting on Thursday, and OPEC will meet on Friday
- Greece faces a 300-million-euro repayment deadline on Friday

Date	Indicator	For	Forecast	Last
1-Jun	ISM Manufacturing	May	52	51.5
1-Jun	Markit US Manufacturing PMI	May F	53.8	53.8
1-Jun	Personal Income	Apr	0.3%	0.0%
1-Jun	Personal Spending	Apr	0.2%	0.4%
1-Jun	Construction Spending MoM	Apr	0.8%	(0.6%)
2-Jun	Factory Orders	Apr	(0.1%)	2.1%
3-Jun	Trade Balance	Apr	-\$44.0B	-\$51.4B
3-Jun	ADP Employment Change	May	200K	169K
5-Jun	Change in Nonfarm Payrolls	May	228K	223K
5-Jun	Unemployment Rate	May	5.4%	5.4%



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