

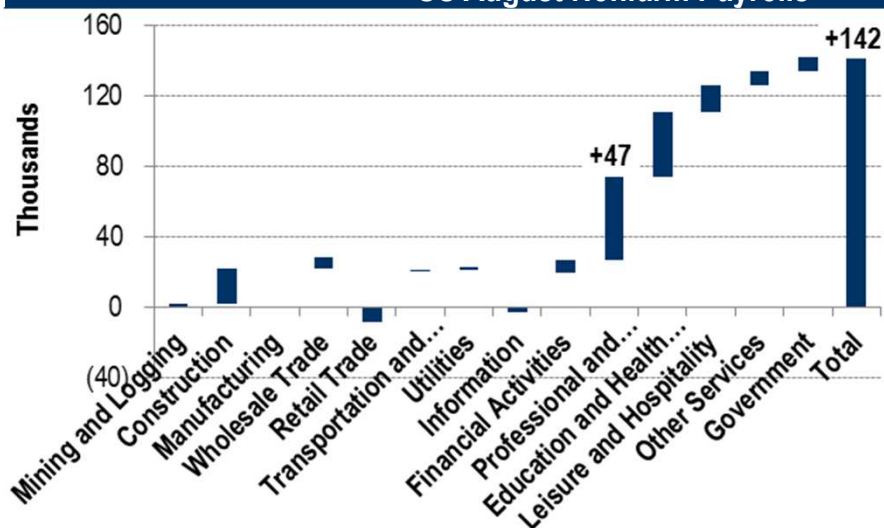
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.15%	0.16%	(0.01%) ↓
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% ○
US Treasury Yields			
2-year Treasury	0.51%	0.49%	0.02% ↑
5-year Treasury	1.69%	1.63%	0.06% ↑
10-year Treasury	2.46%	2.34%	0.12% ↑
Swaps vs. 3M LIBOR			
2-year	0.77%	0.76%	0.01% ↑
5-year	1.87%	1.83%	0.04% ↑
10-year	2.63%	2.55%	0.08% ↑

Fed Speak & Economic News:

- Over two years ago, in July 2012, European Central Bank President Mario Draghi, at the Global Investment Conference in London, said, "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." *Whatever it takes*. Market participants loved Draghi for that statement. And that is all it took: his word. Bond spreads declined (whatever it takes meant that the ECB would always be there as a lender of last resort); confidence was restored to the region; unemployment for the euro area ticked lower; and economic growth rebounded. But the music has slowed, and now, we may be nearing the last few notes. Economic growth in the region slowed down and even declined in some countries (e.g., Italy).
- Worried that Europe could become the next Japan – whose economy was handcuffed by deflation in the '90s – Mr. Draghi announced further easing in the form of rate cuts and asset purchases on Thursday. The rate cuts put interest rates at the zero bound, the lowest level rates can go before they can no longer spark economic growth. The move even goes as far as to charge banks for parking their money at the ECB. Beginning next month, the ECB will begin its quasi-QE program, buying packages of home loans, business loans, and maybe even credit card debt. Essentially, the program enables the purchase of securitized bank debt. The goal is to get banks to lend more money than they have been; it is an attempt to revive inflation. Draghi's announcement was met with resounding excitement: European stock and bond markets rallied; the euro's value fell versus the US dollar (making European exports more attractive); and inflationary levels implied by forward rates ticked higher. With Draghi doing all he can to persuade markets, it makes it easier for the Fed to step away from unconventional policy here in the United States.
- In stark contrast to Europe, US economic data have been excellent. Economic indicators, including the ISM Manufacturing, are at record highs. However, on Friday, the string of impressive economic data took a breather: The August nonfarm payrolls report showed a 142,000 gain, which was much less than the 230,000 jobs gain anticipated. At first glance, the figure looks worrisome, but it is enough payroll growth to keep the Fed moving towards interest rate normalization. It is expected that the Fed will change the language of its statement regarding forward guidance at its upcoming meeting on September 17 and 18 in light of recent data.

US August Nonfarm Payrolls



Nonfarm payrolls increased by 142,000 jobs in August. This number fell far short of expectations and it was also the smallest payroll gain of the year. On top of that, the number broke the longest string of consecutive payroll gains of 200,000 or higher since the '90s. Manufacturing did not see any payroll growth during August despite manufacturing indicators having suggested strong growth in the sector. The unemployment rate ticked lower partly due to the participation rate dipping to 62.8%

U.S. Economic Data

- Nonfarm payrolls printed at +142,000 jobs versus +230,000 expected
- The unemployment rate ticked lower to 6.1% from 6.2%
- The participation rate sank to a 36-year low of 62.8% due to a 64,000 drop in the labor force
- ADP payrolls for August printed at 204,000 versus 220,000 expected
- US Manufacturing PMI registered at 57.9 vs. 58.0 expected.
- Factory orders in July increased by 10.5% vs. 11.0% expected

Date	Indicator	For	Forecast	Last
9-Sep	JOLTS Job Openings	Jul	4711	4671
9-Sep	NFIB Small Business Optimism	Aug	96.0	95.7
10-Sep	Wholesale Inventories MoM	Jul	0.5%	0.3%
11-Sep	Monthly Budget Statement	Aug	-\$130.0B	-
12-Sep	Univ. of Michigan Confidence	Sep P	83.5	82.5
12-Sep	Retail Sales Advance MoM	Aug	0.6%	0.0%
12-Sep	Import Price Index MoM	Aug	(1.0%)	(0.2%)

Source: Bureau of Labor Statistics



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