

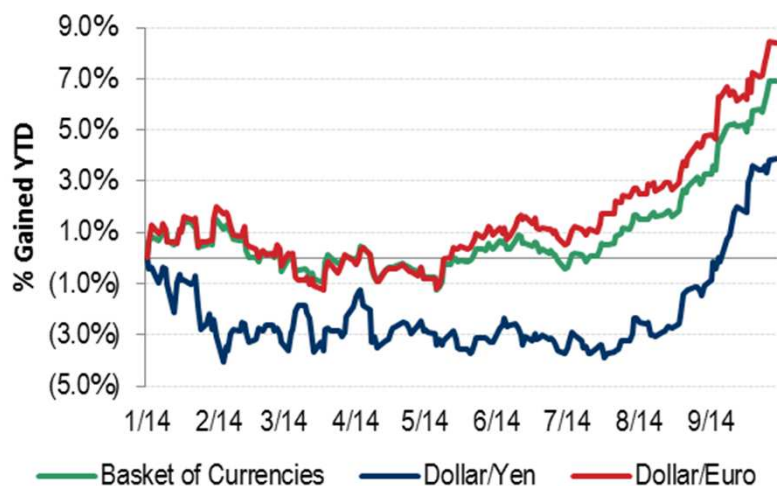
Current Rate Environment

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% ○
US Treasury Yields			
2-year Treasury	0.58%	0.57%	0.01% ↑
5-year Treasury	1.79%	1.81%	(0.02%) ↓
10-year Treasury	2.54%	2.58%	(0.04%) ↓
Swaps vs. 3M LIBOR			
2-year	0.85%	0.86%	(0.01%) ↓
5-year	2.00%	2.03%	(0.03%) ↓
10-year	2.72%	2.76%	(0.04%) ↓

Fed Speak & Economic News:

- The United States' economy has emerged as one of the main drivers of global growth in 2014 after three rounds of unprecedented quantitative easing, with the last round scheduled to conclude in October; however, the global recovery continues to face setbacks. Europe has surfaced as the main impediment to worldwide growth, but it is not alone: Japan's economy is also showing signs of faltering, despite "Abenomics", which has been touted to be the country's remedy to its economic woes. In short, the global recovery has become weaker, more dependent on the US economy, and will rely on further monetary policy support in Europe.
- Earlier this year, in the second quarter, the economy of the European Union faced the prospect of deflation. Acting quickly, European Central Bank President Mario Draghi announced further policy measures, which were comprised of lowering rates and implementing a quasi-QE program. The policy measures were designed to get banks to lend more money than they had been; they were designed to spark inflation. Although it worked, the effects were short-lived, and now, the gloom has returned.
- There is a small likelihood that the ECB announces a full-scale easing program when it concludes its meeting on October 2. Europe's economy faces many hurdles, some of them geopolitical. For example, the Russia-Ukraine conflict continues to affect the economy through direct trade channels (e.g., the ramifications of Russia's sanctions) and through the financial channel (e.g., weaker business confidence). In addition, some European governments, such as France and Italy, are struggling to push through much-needed reform due to political gridlock. To complicate matters, inflation in the region has declined over the summer months and now sits at just 0.4 percent in August. As a result, many believe further action is needed. Why would the ECB launch full-scale bond buying? The reason is because it cannot expand its balance sheet quickly enough to support demand and boost inflation with the current programs in place. But there is a chance that the ECB sits idly this week. Quantitative easing is very controversial and could delay the implementation of much-needed reforms.
- This week will be a very busy week for market participants with the ECB meeting and the September US employment report. In addition, we have month- and quarter-end dynamics that will likely weigh on the curve.

US Dollar Reaches Four-Year High



The US dollar has strengthened for the 11th straight week; the longest streak in four decades. While other major economies from Europe to Asia show signs of weakening, the US economy has continued to gain momentum. Compared to a basket of nine other currencies, including the yen, pound, and euro, the dollar is up six percent for the year. The gain reflects the dynamics of diverging monetary policies across the globe. The ECB and BoJ are expanding their monetary policies while the Fed and the BoE are winding their programs down. On top of that, market participants' appetite for dollar-based assets has increased, especially with heightened geopolitical risks.

U.S. Economic Data

- Univ. of Michigan Confidence printed at 84.6 vs 84.87 expected
- Durable goods orders sank 18.2% for August vs -18.0% expected but this is mainly because of the nondefense aircraft orders figure that soared over 300% in July and then fell 74.3% in August

Date	Indicator	For	Forecast	Last
29-Sep	Personal Income	Aug	0.3%	0.2%
29-Sep	Personal Spending	Aug	0.4%	(0.1%)
30-Sep	Consumer Confidence Index	Sep	92.5	92.4
1-Oct	ISM Manufacturing	Sep	58.3	59.0
1-Oct	Markit US Manufacturing PMI	Sep F	58.0	57.9
1-Oct	ADP Employment Change	Sep	207K	204K
2-Oct	Factory Orders	Aug	(9.5%)	10.5%
3-Oct	Change in Nonfarm Payrolls	Sep	215K	142K
3-Oct	Unemployment Rate	Sep	6.1%	6.1%
3-Oct	Trade Balance	Aug	-\$40.8B	-\$40.5B

Source: Bloomberg



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