Interest Rate Risk Management Weekly Update

July 6, 2015

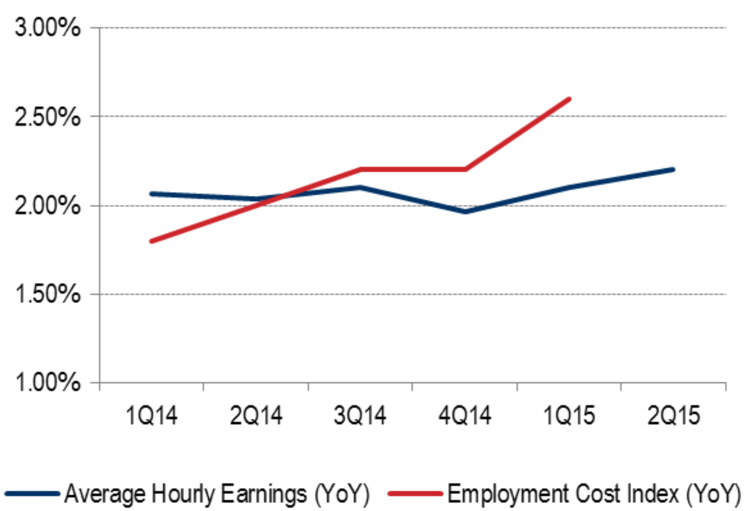
Current Rate Environment

Short Term Rates	Thursday	Prior Week	Change
1-Month LIBOR	0.19%	0.19%	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	0.64%	0.72%	(0.08%)
5-year Treasury	1.65%	1.76%	(0.11%)
10-year Treasury	2.39%	2.47%	(0.08%)
Swaps vs. 3M LIBOR			
2-year	0.95%	0.99%	(0.04%)
5-year	1.84%	1.92%	(0.08%)
10-year	2.54%	2.61%	(0.07%)

Fedspeak & Economic News:

- U.S. Treasury prices were volatile last week, with levels dictated predominately by two factors: The Greek debt negotiations, and the Bureau of Labor Statistics (BLS) June Employment Report.
- Greece and its creditors did not find enough common ground to end the debt impasse and as a result, the country did not make its €1.5 billion payment on Tuesday, June 30, to the International Monetary Fund. While the missed payment did not constitute a credit event, it was enough to catalyze a sharp rally in Treasuries and set off a risk-off chain-reaction in other asset classes. As a consequence of failing to formalize a deal, officials have begun implementing plans to "ring fence" Greece, which includes putting capital controls in effect to stem the flow of foreign capital out of the country. After the failed payment, Greek Prime Minister Tsipras called for a referendum on Sunday, July 5. Voters decided against creditors' demands in an overwhelming fashion, refusing to endure more austerity in exchange for another bailout. Shortly after the vote, Greece's finance minister, Yanis Varoufakis, abruptly quit his role after creditors preferred he not have further involvement in debt negotiations. It is most likely that Greece will exit the European Monetary Union, but a departure could still be avoided. However, it will be hard for European finance leaders to sell a bailout given Sunday's outcome.
- The BLS June Employment Report was disappointing in its entirety. Nonfarm payroll growth missed its mark, with the headline job growth figure registering below expectations at +223,000 versus +233,000 expected. The market had a strong reaction to the release, and it was for two reasons: Market participants had very optimistic expectations, and the fine print was even more disappointing than the headline figure. There was a 60,000 downward revision to job growth in the prior two months, while wage growth registered flat for the month, which pushed the annual growth rate down to two percent. The downtick in the unemployment rate from 5.5% to 5.3% was particularly troubling since it came alongside a fall in the participation rate, which fell from 62.9% to 62.6% (a cycle low and a very large move for the series.) However, the Fed will not let the outcome of any single report dictate the timing of interest rate normalization. Despite the disappointment, the 12-month jobs growth average has held its head well above water, registering at +245,000 jobs, while the six-month figure has moderated to +208,000. We still have two more payroll reports to go before the September FOMC meeting, so it is unlikely that the June release will have a profound impact on the Fed's decision to raise rates.

Employment Cost Index Paints a More Favorable Picture



Sources: Bloomberg, US Bureau of Labor Statistics

The June labor report showed that the latest wage data were disappointing. Determining wage gains is important to the Federal Reserve so that it can understand how quickly the labor market is improving, which can help it gauge inflation. The blue line represents the 3-month average growth for average hourly earnings, but economists prefer the Employment Cost Index, the red line (2Q15 data point not released yet), which can control for compositional shifts in the labor force and currently, it is more encouraging. The average hourly earnings figure can be misleading because the measure can rise due to higher-paid workers being paid more, not necessarily because pay rose across the spectrum.

The Week Ahead

- The ECB Governing Council will meet on Monday to decide whether to extend further liquidity to Greece. An emergency leaders' summit has been called for Tuesday, which is when Greek banks are scheduled to reopen.
- There will be plenty of Fedspeak this week, including speeches from San Francisco Fed President Williams (an FOMC voter), Minneapolis Fed President Kocherlakota (non-voter), and Governor Lael Brainard, among others. The most watched speech will be from Chair Janet Yellen, who will speak at The City Club of Cleveland on Friday.
- The June FOMC Minutes will be released on Wednesday.

Date	Indicator	For	Forecast	Last
6-Jul	ISM Non-Manf. Composite	Jun	56.4	55.7
6-Jul	Markit US Composite PMI	Jun F	-	54.6
6-Jul	Markit US Services PMI	Jun F	54.9	54.8
7-Jul	Trade Balance	3-Jul	-	(4.7%)
9-Jul	Initial Jobless Claims	4-Jul	277k	281k
10-Jul	Wholesale Inventories MoM	May	0.3%	0.4%

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