Interest Rate Risk Management Weekly Update

June 15, 2015

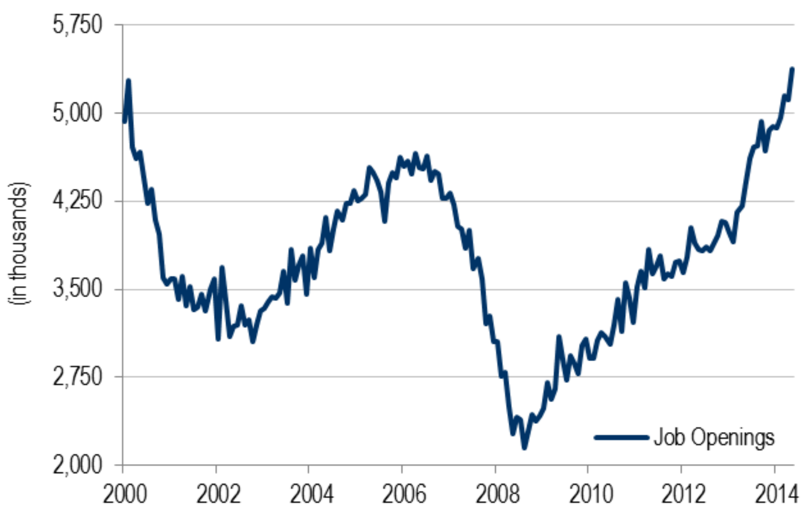
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.18%	0.18%	0.00%
3-Month LIBOR	0.29%	0.28%	0.01%
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	0.73%	0.71%	0.02%
5-year Treasury	1.75%	1.74%	0.01%
10-year Treasury	2.39%	2.41%	(0.02%)
Swaps vs. 3M LIBOR			
2-year	1.04%	1.01%	0.03%
5-year	1.92%	1.92%	0.00%
10-year	2.52%	2.54%	(0.02%)

Fedspeak & Economic News:

- The Fed's two-day meeting, expected to conclude on Wednesday, will hold investors on edge this week and market volatility will likely be heightened. Though a rate hike is not expected to be announced following the meeting, investors will look to see if the committee's dot plot reveals that it will stick to the base case of two hikes this year, while the market continues to price in only one. The meeting will also highlight the FOMC's thinking given the recent string of US economic data that have surprised to the upside. Labor market statistics, consumer confidence, and retail sales have all come in strongly. But, a boost in rates is unlikely to come before the Fed feels as though a trend has truly materialized, given the fear of tightening too early. Regardless, rate hikes are, as Fed Chair Janet Yellen has emphasized numerous times in recent speeches, to be gradual. Remember, the Fed will continue to invest maturing proceeds into treasury coupons, maintaining its sizeable holdings. NY Fed President Dudley suggested recently that the central bank may maintain its large balance sheet for a period of time in order to allow monetary conditions to normalize at a measured rate rather than pulling two levers at once, i.e. a hike in the fed funds target rate and a reduction in Treasury holdings. Market participants are expected to do the usual parsing of the Fed statement and forecasts, meaning rates could be in for significant swings.
- The game of chicken between Greece and its creditors has intensified as neither side appears ready to capitulate. Last week, the IMF publicly stated its negotiating team left Brussels following the stalemate with Greek Prime Minister Tsipras, who remains adamant that state pensions and VAT increases are not in the reform equation. Members of the far left Syriza ruling party in Greece have begun calling for an "Icelandic"-style default to avoid what they feel are entirely unreasonable demands. This would involve nationalizing the banks and returning to the drachma. Investors' fear of such an outcome has continued to act as a catalyst for capital outflows from the banks in the nation, some €400MM per day, and the threat of a national bank run looms. The June 18 meeting of Eurogroup finance ministers may be the last chance for an agreement as any deal will have to go through a number of parliaments for scrutiny and approval. Even if the two sides can come together, it is probably not possible for a bailout to occur before a €1.6B payment to the IMF is due at the end of June, but they will likely be looking for ECB approval to issue more debt, and for banks to buy it, a measure to buy time until the bailout comes through.

JOLTS Report Hits Record High



The Jobs Openings and Labor Turnover Survey, or JOLTS, echoed in the strong May nonfarm payrolls report that the labor market is bouncing back. The report is a favored indicator for Fed Chair Yellen. The seasonally adjusted April numbers registered at their highest levels since the Labor Department began publishing the information in December 2000. The increased rate of job openings suggests there is ample room for strong hiring to continue.

Sources: Bloomberg, US Bureau of Labor Statistics

The Week Ahead

- The Federal Open Market Committee will conclude its two-day meeting on Wednesday. It will release a statement and revised forecasts for U.S. economic growth, along with an updated "dot plot".
- The Bank of Japan will conclude its two-day meeting on Thursday after Governor Haruhiko Kuroda said that there was no reason for the yen to weaken further last week.
- The Swiss National Bank will also conclude its policy meeting on Thursday.
- The Greek debt impasse will continue to dominate headlines as Greece's bailout is set to expire at the end of the month.

Date	Indicator	For	Forecast	Last
15-Jun	Industrial Production MoM	May	0.2%	(0.3%)
15-Jun	Empire Manufacturing	Jun	6.00	(1.98)
16-Jun	Housing Starts	May	1091K	1135K
17-Jun	FOMC Rate Decision (Upper Bound)	17-Jun	0.25%	0.25%
18-Jun	CPI MoM	May	0.5%	0.1%
18-Jun	Leading Index	May	0.4%	0.7%

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