Interest Rate Risk Management Weekly Update

March 2, 2015

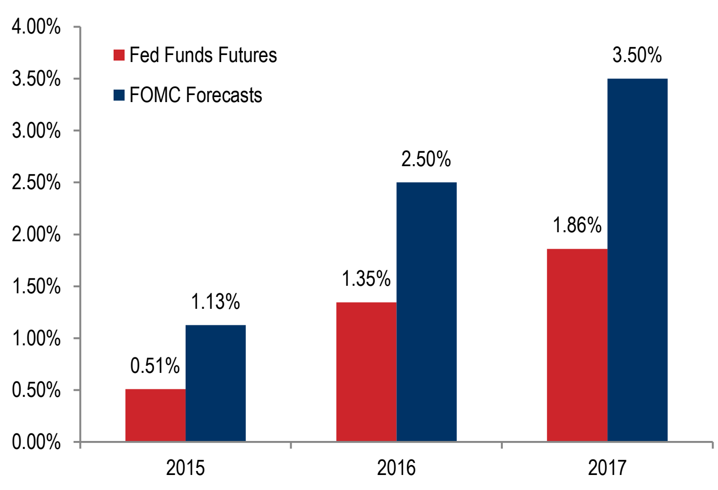
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.17%	0.17%	0.00%
3-Month LIBOR	0.26%	0.26%	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	0.62%	0.63%	(0.01%)
5-year Treasury	1.50%	1.59%	(0.09%)
10-year Treasury	1.99%	2.11%	(0.12%)
Swaps vs. 3M LIBOR			
2-year	0.93%	0.97%	(0.04%)
5-year	1.70%	1.80%	(0.10%)
10-year	2.17%	2.29%	(0.12%)

Fed Speak & Economic News:

- Federal Reserve Chair Janet Yellen appeared before the US Senate Committee on Banking, Housing, and Urban Affairs, followed by a meeting with the equivalent committee in the House on Tuesday and Wednesday, respectively. Dr. Yellen repeated the themes we have seen in recent FOMC meeting minutes: considerable progress in the labor market, inflation concerns, housing progress, and an approaching end to the use of forward rate guidance. It is expected that the March FOMC statement will not include the word "patient" in regards to rate increases. Rather, the Fed will likely transition to a fully data-dependent mode, whereby it can raise rates when economic conditions are suitable. To further bolster the possibility for a rate hike this year, a slew of Fed Presidents hit the wire, drumming the same beat as Janet Yellen. St. Louis Fed President James Bullard said Thursday that the Fed would fall behind the curve if it did not lift rates by the end of September. Fed Vice Chairman Stanley Fischer said Friday at a conference in New York that "it's about time" for a rate hike, reminding investors that a zero interest rate is far from normal. The conference was also attended by Cleveland Fed President Loretta Mester, who expressed concern that holding rates low for too long could send counterproductive signals to the market that the Fed has a gloomy economic outlook. New York Fed's Dudley also chimed in to say "it would be appropriate to choose a more aggressive path of monetary policy".
- Across the pond, Europe saw flickers of much needed positive news. Consumer confidence in February was reported as strong and the latest leading indicators from Italy, Spain, France and Germany were solid. Consumer prices have appeared to level off from their constant decline while unemployment fell to its lowest rate in nearly three years. The uncertainty of a Greek exit remains troubling, however, and negotiations will go on as the Syriza government continues to push back on the imposed austerity measures.
- Abroad, significant headwinds remain for China and Japan but their respective Central Banks seem poised to act swiftly. The Peoples Bank of China displayed this willingness via a cut to benchmark interest rate for the second time in three months. In response, the yuan fell to its lowest in two years while equity prices moved higher. The lack of inflation continues to be a top concern in Japan and could lead the Bank of Japan to further easing, likely in the form of more equity-linked ETFs. Action is not imminent, but CPI concerns will probably be addressed in the BoJ July Outlook Report.

Fed Funds Futures and Median Forecasts



Sources: Bloomberg

As the disparity grows between FOMC forecasts and market participants' expectations for short term rates, market turbulence is expected to increase in the coming months. Should rates increase more closely in line with the Fed's forecasts', investors will need to abruptly adjust positions and markets could tumble (read: spiking rates). If the Fed delays rate hikes too long, it risks losing credibility. The natural rate of interest or long-run rate is also of concern as investors are pricing in nearly two full percentage points lower than the Fed's median forecast. As forward guidance is removed from the Fed's policy, estimating the fed funds target rate will prove even more challenging.

The Week Ahead

- February's job report will be released at the end of the week, with continued hope for insight on wage growth as the key factor that would instill confidence for a June rate hike. There is reason to believe wage pressure is building as Walmart and other large employers have announced planned pay hikes.
- Execution details are expected to be provided following the ECBs Governing Council meeting this week of the asset purchase program announced in January.

Date	Indicator	For	Forecast	Last
2-Mar	PCE Core YoY	Jan	0.2%	0.8%
2-Mar	Markit US Manufacturing PMI	Feb	54.3	54.3
2-Mar	ISM Manufacturing	Feb	53.0	53.5
5-Mar	Factory Orders	Jan	0.2%	(3.4%)
6-Mar	Change in NonFarm Payrolls	Feb	235K	257K
6-Mar	Average Hourly Earnings	Feb	0.2%	0.5%
6-Mar	Trade Balance	Jan	($41.5B)	($46.6B)

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