

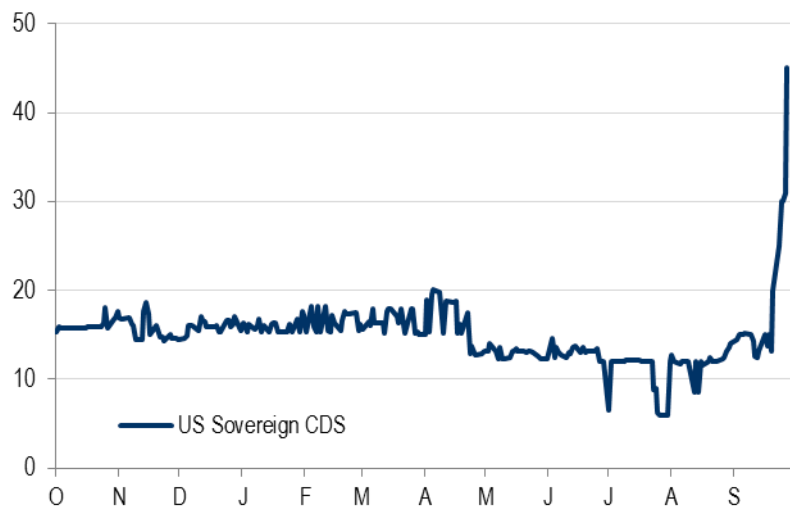
## Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.19%	0.19%	0.00% ○
3-Month LIBOR	0.32%	0.32%	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% ○
<b>US Treasury Yields</b>			
2-year Treasury	0.64%	0.61%	0.03% ↑
5-year Treasury	1.42%	1.35%	0.07% ↑
10-year Treasury	2.09%	2.03%	0.06% ↑
<b>Swaps vs. 3M LIBOR</b>			
2-year	0.81%	0.78%	0.03% ↑
5-year	1.48%	1.43%	0.05% ↑
10-year	2.09%	2.05%	0.04% ↑

## Fedspeak &amp; Economic News:

- In the US, the usual suspects continue to give markets pause. Despite continued robust consumer spending and a strong housing sector, weaker export numbers and business inventory driven by the global slowdown weigh on the domestic economy, specifically GDP growth forecasts for the third quarter. The persisting dichotomy will be interesting to observe as the Fed's dueling outlooks play out between the policy makers prepared to begin normalizing and those that are not. The October FOMC meeting this week may provide some clarity. While the likelihood of a hike is almost non-existent, insight into December's meeting will be what most market participants tune in for. If you recall some of the highlights from September's Fed meeting, tightening financial conditions were particularly concerning. Since the last meeting, financial conditions have eased to a noteworthy degree. The S&P500 index has recovered by approximately 3 percent, the VIX volatility index has fallen sharply, and capital outflows from China have slowed following economic data that has surprised to the upside. Whether those developments are enough to get officials moving remains to be seen.
- During a press conference last Thursday, European Central Bank President Mario Draghi gained the spotlight after strongly signaling that further easing measures are on the way. Citing low inflation and weakness in emerging market economies, Draghi commented that the "degree of monetary policy accommodation will be re-examined in December". He then stated that some members of the Governing Council were assessing a variety of ways to achieving its policy goals, including an extension of the program or an additional cut to bank deposits, further into negative territory. At this time, investors expect an extension of quantitative easing measures from September 2016 to March or June of 2017. While the option to cut the rate banks earn on their deposits with the ECB is possible, the central bank may wait for clarity on how the Federal Reserve reacts in the coming months. After the press conference, the euro moved closer to parity with the dollar, and may continue to do so over the next few months with a generous ECB. On the topic of central bank easing, the Bank of Japan is also anticipated to announce some measures of its own at its October 30 policy meeting, after the release of some major economic data points on October 29. This could mean increasing the pace of its monetary base expansion, increasing the maturity of its holdings, or increasing the pace of its equity-linked ETF purchases.

## US 1-Year CDS Spreads



As crunch time approaches, the Treasury and the market are preparing for the worst case scenario that the US debt ceiling is not raised. In anticipation, the Treasury decided to delay the 2y auction scheduled for November 2 for fear that settlement may not occur if the debt ceiling is not increased by the November 3 deadline. The market has reacted by sending credit default swaps higher, fearing Congress will fail to reach an agreement. House Speaker Boehner is working to get a deal done prior to his retirement, and most do believe it will happen.

Sources: Bloomberg



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## The Week Ahead

- The FOMC concludes its meeting on October 28, with a press release to follow. Rates are expected to remain unchanged
- After the quiet period, Fed officials Lockhart, Williams, and George are scheduled to speak
- Initial 3Q GDP numbers will be released this week, and forecasts are lower than previously anticipated as effects of the strong dollar permeates the economy

Date	Indicator	For	Forecast	Last
26-Oct	New Home Sales	Sep	549k	552k
27-Oct	Durable Goods Orders	Sep	(1.5%)	(2.0%)
27-Oct	Consumer Confidence Index	Oct	55.5	55.1
29-Oct	GDP Annualized QoQ	3Q	1.5%	3.9%
30-Oct	Personal Income	Sep	0.2%	0.3%
30-Oct	Personal Spending	Sep	0.2%	0.4%
30-Oct	U. of M. Consumer Sentiment Index	Oct	92.5	92.1
30-Oct	Chicago PMI	Oct	49.5	48.7

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