Interest Rate Risk Management Weekly Update

November 30, 2015

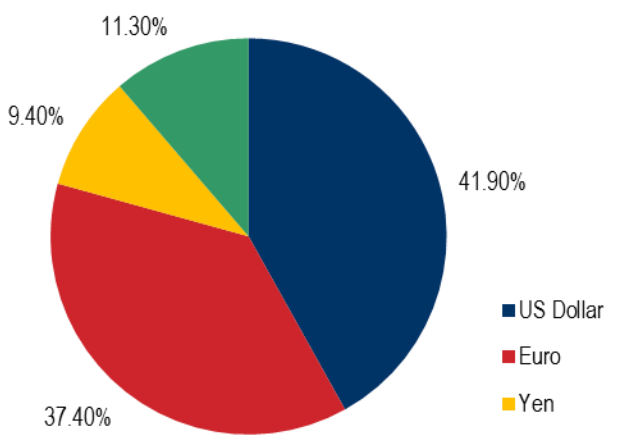
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.24%	0.21%	0.03% ↑
3-Month LIBOR	0.41%	0.38%	0.03% ↑
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	0.92%	0.92%	0.00%
5-year Treasury	1.65%	1.69%	(0.04%) ↓
10-year Treasury	2.22%	2.26%	(0.04%) ↓
Swaps vs. 3M LIBOR			
2-year	1.03%	1.01%	0.02% ↑
5-year	1.62%	1.63%	(0.01%) ↓
10-year	2.13%	2.14%	(0.01%) ↓

Fedspeak & Economic News:

- The US Treasury curve flattened last week, with shorter-dated yields rising and later-dated yields falling despite subdued liquidity over the holiday-shortened week; however, more notably, 1- and 3-month LIBORs moved higher by three basis points each, which was probably in anticipation of the growing likelihood of a Fed hike at the final meeting of the year on December 16.
- If we ranked each week of this year on a scale of economic importance, this week would likely be ranked somewhere near the top. Only on rare occasion do we see such a confluence of important events in such a short period of time. The two events that have the potential to have a profound impact on interest rate markets are the conclusion of the European Central Bank's meeting on Wednesday and the release of the November BLS Employment Report on Friday.
- There is a cloud of uncertainty surrounding the ECB's meeting, however, most market participants expect the unveiling of additional easing in one form or another. Here are the vehicles that can be adjusted to provide further easing: the deposit rate, pace of asset purchases, types of instruments that can be bought, and length of the easing program. According to consensus, a program extension is the most likely candidate, with investors suggesting that we could see a six-month extension of the asset-buying program (March 2017). On top of the normal ebbs and flows of the European economy, the ECB must also consider the impact that heightened geopolitical risks will have on the economy (one Paris hotel reports its occupancy is down 24% following the attacks). The decision to ease further could weigh on the Fed's consideration to hike since the divergence of monetary policies should, theoretically, lead to a stronger US dollar (the dollar has rallied significantly recently) and less favorable financial conditions.
- The November labor report should be the last major component of the Fed's calculus when it decides whether to hike in December. It is important to know that we do not need another print like October's payroll figure (+271k), which was the best release of the year; market participants will be anxious to see it in the neighborhood of +200k. However, the other details are important as well (e.g., average hourly earnings); if they are constructive, then we should have a little more wiggle room for disappointment. Barring an abysmal payroll report and significant market volatility, there is a very high likelihood that the Fed hikes at its next meeting.

Yuan to Join Elite Currencies



On November 30, the International Monetary Fund announced the inclusion of the yuan to the basket used to value its Special Drawing Rights (SDR), to become effective October 1, 2016. In recent months, the People's Bank of China has taken considerable steps to meeting the IMF's standards, such as revaluing its currency in August, its commitment to a three-month bond issue every week for benchmarking interest rates, and opening up onshore bond and currency markets to other central banks and investors. Financial reforms from the PBoC are likely to continue as capital flow liberalizes and the domestic economy rebalances. Inclusion in the SDR highlights the growing significance of the currency in global trade and finance.

Sources: Bloomberg, IMF

The Week Ahead

- We will get a look at the last BLS labor report before the Fed meets again in a little over two weeks (Dec. 16). Economists estimate that employers added close to 200,000 jobs in November.
- We will see no fewer than nine Federal Reserve officials speak, including Fed Chairwoman Janet Yellen.

Date	Indicator	For	Forecast	Last
30-Nov	Chicago Purchasing Manager	Nov	54.0	56.2
1-Dec	ISM Manufacturing	Nov	50.5	50.1
1-Dec	Markit US Manufacturing PMI	Nov F	52.6	52.6
2-Dec	ADP Employment Change	Nov	190k	182k
3-Dec	Durable Goods Orders	Oct F	-	3.0%
3-Dec	Factory Orders	Oct	1.4%	(1.0%)
4-Dec	Change in Nonfarm Payrolls	Nov	200k	271k
4-Dec	Unemployment Rate	Nov	5.0%	5.0%
4-Dec	Trade Balance	Oct	-$40.50b	-$40.81b

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