

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%	0.64%	0.00% ○
5-year Treasury	1.66%	1.65%	0.01% ↑
10-year Treasury	2.40%	2.39%	0.01% ↑

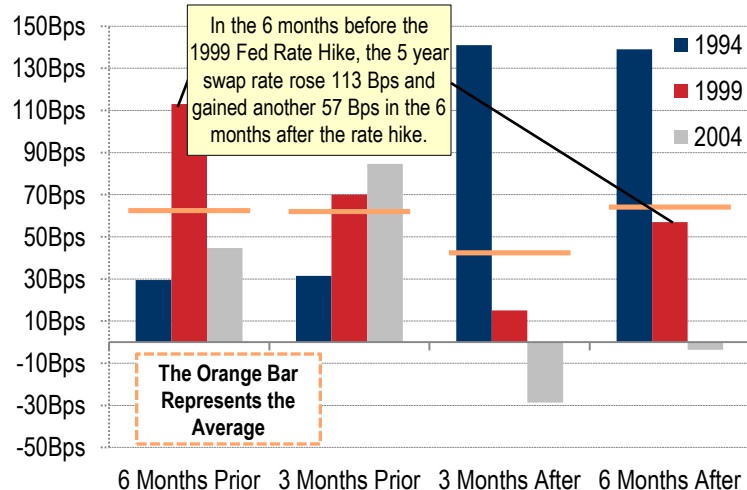
Swaps vs. 3M LIBOR

2-year	0.94%	0.95%	(0.01%) ↓
5-year	1.83%	1.84%	(0.01%) ↓
10-year	2.54%	2.54%	0.00% ○

Fedspeak & Economic News:

- U.S. Treasuries had a lot of information to price and absorb during the previous week given the brinkmanship of the Greece debt negotiations, the release of the FOMC minutes to the June meeting, and the meltdown in China's Shanghai Composite.
- Eurozone finance ministers used brutal rhetoric to convince Greece to surrender to their demands and accept the proposed terms and conditions of yet another bailout. The accord took over 22 hours to iron out, and at times faced collapse, but it gives the country a fighting chance to remain in the European Union. "The deal is hard," Greek Prime Minister Tsipras said after the summit. The measures laid out will reach deep into the heart of Greece's economy in an unprecedented fashion. By Wednesday, Athens' Parliament will need to pass pension overhauls and sales tax increases, which is exactly what voters said 'no' to during the referendum held a week ago. The deal also eases labor laws, liberalizes markets, and requires the privatization of state assets. The bailout will amount up to €86 billion – €15-25 billion will be needed to repair banks' balance sheets – and ironically contains funds courtesy of the International Monetary Fund, contrary to Greece's wishes. Acceptance of the deal means that Mr. Tsipras' fate is all but certain, as it is likely that snap elections will be called and the balance of power will shift away from the Syriza party.
- In the shadow of developments in the eurozone, the minutes to the June 16-17 FOMC meeting were released on Wednesday. Committee members "saw economic conditions as continuing to approach those consistent with warranting a start" of tightening, but they acknowledged concerns related to the Greek debt negotiations and slowing pace of worldwide economic growth, particularly in China and other emerging economies. Fed Chair Janet Yellen spoke on Friday, and in a very strict manner, said that the FOMC remains on path to hike rates once or twice this year. She mentioned that while overseas issues (e.g., Greece and China) are important to consider, it is domestic developments that are the main drivers of monetary policy.
- As market participants look beyond Greece, China has become the focus. Chinese equity indices have faced wild gyrations and officials are throwing everything but the kitchen sink to prop markets up. As the situation finally normalizes, it will be a big week with the release of top tier Chinese economic data, which will likely drive price action in U.S. Treasuries.

5Yr Swap Rates vs Fed Hikes



As the Fed becomes more transparent on the timing of rate hikes, the resulting rise in rates tends to be sooner and even before the actual rate hike. On Friday, Fed Chair Janet Yellen reviewed some key points from the FOMC Minutes released on Wednesday. Yellen maintained the view that the Fed favors a hike this year given a US economy that remains on a steady path to recovery. The usual caveat was included, saying the timeline could be delayed or accelerated depending on the unfolding of events. Market participants have pushed back the expected date of a rate hike, to now showing a 30 percent probability for a hike in September.

The Week Ahead

- The Greek parliament will vote on, and must pass, six reform bills this week. All of them were rejected in the recent referendum.
- It will be a big week for Chinese economic data, with June trade figures and loan data being released.
- A host of Fed officials are scheduled to speak this week, including Kansas City's George, Cleveland's Mester, and Fed Governors Williams and Fischer.

Date	Indicator	For	Forecast	Last
14-Jul	Retail Sales Advance MoM	Jun	0.3%	1.2%
15-Jul	PPI Final Demand MoM	Jun	0.3%	0.5%
15-Jul	Empire Manufacturing	Jul	3.00	-1.98
15-Jul	Industrial Production MoM	Jun	0.2%	(0.2%)
17-Jul	Housing Starts	Jun	1123k	1036k
17-Jul	CPI MoM	Jun	0.3%	0.4%
17-Jul	U. of Mich. Sentiment	Jul P	96.50	96.10

Sources: Bloomberg

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