Interest Rate Risk Management Weekly Update

November 3, 2014

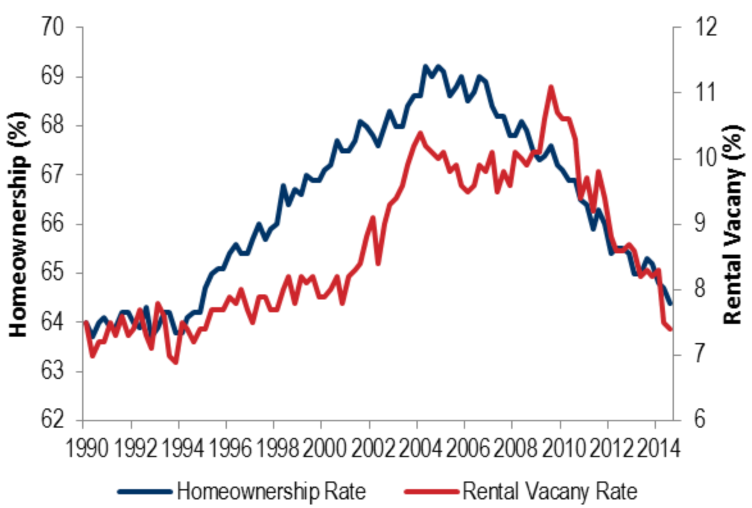
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change	
1-Month LIBOR	0.16%	0.15%	0.01%	↑
3-Month LIBOR	0.23%	0.23%	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	0.49%	0.39%	0.10%	↑
5-year Treasury	1.61%	1.50%	0.11%	↑
10-year Treasury	2.34%	2.27%	0.07%	↑
Swaps vs. 3M LIBOR				
2-year	0.76%	0.69%	0.07%	↑
5-year	1.81%	1.72%	0.09%	↑
10-year	2.53%	2.46%	0.07%	↑

Fed Speak & Economic News:

- After yet another turbulent week in the market, the Treasury yield curve saw considerable flattening as short-term Treasuries sold off more so than later-dated securities, which, relatively speaking, held their ground. The highlight of the week was the FOMC meeting, which concluded on Wednesday. The Fed met expectations and announced the conclusion of QE. There was one dissent from Minneapolis Fed Governor Narayana Kocherlakota, who called for the continuation of the program because of his bleak view of near- and long-term inflation prospects. Despite the end of QE, the Fed is not expected to trim its massive balance sheet just yet; it will reinvest principal payments from MBSs and continue to roll over Treasuries at their respective maturities. What was unexpected, however, was the more hawkish language in the statement that followed the meeting. By the Fed's own admission, the labor market has gained meaningful traction, and on top of that, committee members believe inflationary levels should move back to normal despite near-term weakness, with a drop in energy prices to blame. The statement retained the phrase "considerable time", which reiterates the fact that the first rate hike will remain data dependent. The Fed's next meeting will fall on December 16-17, and it will be followed by a press conference and updated staff economic projections.
- The US economy continued on its path of robust expansion: The first estimate for third-quarter GDP showed a healthy level of growth at 3.5 percent, although the number is likely to be revised as more data becomes available. Inventories showed some weakness, but gains were widespread, including an uptick in government purchases thanks to increased government spending.
- While one central bank ended its asset purchases, another ramped up its own: The Bank of Japan surprised markets on Friday by announcing that it will expand its existing asset purchases from 50 trillion yen to about 80 trillion annually with the goal of trying to reach its two-percent inflation target. The increased asset purchases will include tripling purchases in stock market funds, taking the total to three trillion yen annually. Markets welcomed the announcement, as equities across the globe rallied. The decision to increase purchases, however, was hardly a unanimous one, with four of the nine governors opposing the measure.
- This week we will see the BoE and ECB both meet on Thursday, and the release of US payrolls for October on Friday.

Structural or Temporary Shift?



Following the recession, Americans broadly changed how they pay for housing. Less and less Americans are purchasing homes with more choosing to rent instead. Questions loom: Have credit standards become so tight that the average American is unable to obtain a mortgage? Two weeks ago the FHFA responded by allowing increased lending to borrowers with as little as three percent down. Many believe that the hangover of the recession fades into a delayed move into homeownership rather than a structural shift away from the American dream of white picket fences.

Source: Bloomberg, US Census Bureau

U.S. Economic Data

- Durable Goods Orders, excluding transportation which had a large impact on the previous month's reading, printed less than expected at -0.2% vs consensus of 0.5%
- Initial jobless claims printed at 287k vs consenus of 285k. The 4-week moving average was 281k, a number associated with robust economic growth
- The first estimate for GDP was reported at an annualized rate of 3.5% vs initial expectations of 3.0%

Date	Indicator	For	Forecast	Last
3-Nov	ISM Manufacturing	Oct	56.1	56.6
4-Nov	Trade Balance	Sep	($40.2B)	($40.1B)
4-Nov	Factory Orders	Sep	(0.6%)	(10.1%)
5-Nov	ADP Employment Change	Oct	220k	213k
7-Nov	Change in Nonfarm Payrolls	Oct	234k	248k
7-Nov	Unemployment Rate	Oct	5.9%	5.9%

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