Interest Rate Risk Management Weekly Update

April 7, 2014

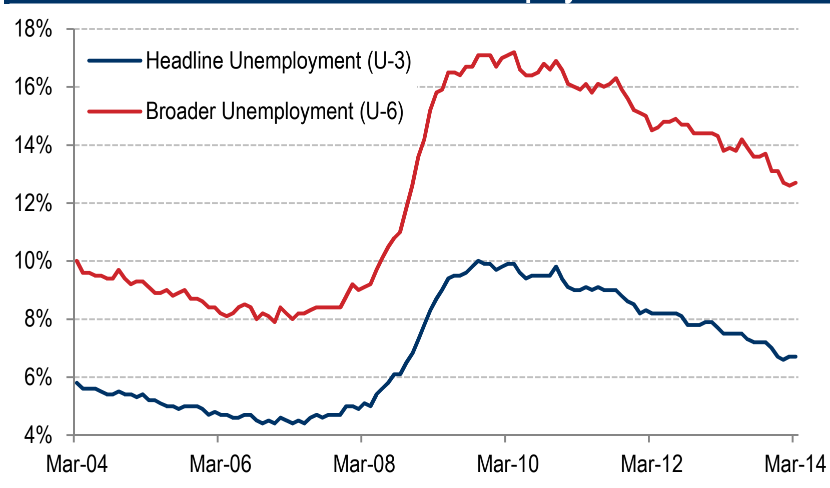
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.15%	0.15%	0.00%
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	0.41%	0.45%	(0.04%)
5-year Treasury	1.70%	1.75%	(0.05%)
10-year Treasury	2.72%	2.72%	0.00%
Swaps vs. 3M LIBOR			
2-year	0.59%	0.62%	(0.03%)
5-year	1.84%	1.88%	(0.04%)
10-year	2.88%	2.89%	(0.01%)

Fed Speak & Economic News:

- Last week's banner event was Friday's unemployment report. The release disappointed with 192,000 jobs added for the month of March despite expectations of 200,000 and the unemployment rate remaining at 6.7 percent while the market had forecast a downtick to 6.6 percent. On the upside, the previous two months were revised higher by a total of 37,000 jobs.
- As is often the case, it is important to take account of the detail of the payrolls release – the private-sector is showing a full recovery. The report included 116,087,000 private-sector jobs, above the January 2008 high. Disappointingly, at over six years, this is a record long period for private-sector employment to make up what was lost in a recession; the previous record was four and a half years following the 2000 top. At this point, it's government payrolls holding the labor force down and 437,000 more jobs are required to get the total number back to the peak. At the current pace, this is likely to happen in June. Thus, though interest rates took a dive on Friday, the report is unlikely to change the Fed outlook on tapering quantitative easing and implementing rate hikes.
- Looking beyond our shores last week, investors were interested in Thursday's ECB meeting since the euro zone is mired in what is now being called "lowflation." Anticipation of the meeting rose after euro area consumer price inflation for March posted an increase of just 0.5 percent, 0.2 percentage points lower than February and the lowest in more than four years. Although the ECB governing council has engaged in sword rattling and president Draghi included a discussion of quantitative easing to his statement, it was left at that. Some in the market are undisturbed and attribute the most recent data undershoot to lower energy prices or the Easter holiday falling in April this year after being in March last year. Others are concerned that the reason the ECB is failing to act is because with its benchmark rate already at 0.25 percent, the Bank only has unproven strategies available which it is reticent to use.
- Wednesday's upcoming release of the Minutes for March's FOMC meeting should attract attention. The rates market was roiled during Yellen's post-meeting press conference when the 5-Year Treasury yield spiked 17 basis points higher in less than two hours. The chairman's comment that a rate hike could come as soon as six months after the end of quantitative easing caused the market to bring forward their expectations for a rate hike. We'll be looking for evidence of a more formal committee discussion of timing.

What is the Employment Situation?



Source: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, New York Times

The headline unemployment rate with which we're all familiar is formally known as U-3. Some critics claim that this measure does not capture the full story and advocate for a wider gauge. The broadest Bureau of Labor Statistics' measure is labeled U-6 and includes those captured by U-3 as well as people who have stopped looking for work out of exasperation and those who have part-time work but want a full-time job. Luckily, both measures are trending lower.

U.S. Economic Data

- The ISM Manufacturing PMI expanded 0.5 points to 53.7 in March, marking ten straight months of reported manufacturing growth
- The prices index in the PMI came in at 59.0 – indicating a notable increase and causing some to look for further signs of inflation
- The ADP employment report showed a gain of 191K jobs
- February's factory orders rose 1.6% versus expectations of 1.2%
- The U.S. trade balance was -$42.3B in February

Date	Indicator	For	Forecast	Last
9-Apr	MBA Mortgage Applications	4-Apr	-	-1.20%
9-Apr	Wholesale Inventories MoM	Feb	0.50%	0.60%
9-Apr	FOMC Minutes	Mar	-	-
10-Apr	Initial Jobless Claims	5-Apr	320K	326K%
10-Apr	Import Price Index	Mar	0.20%	0.90%
10-Apr	Monthly Budget Statement	Mar	-$72.0B	-
11-Apr	PPI Final Demand MoM	Mar	0.10%	-0.10%
11-Apr	Univ. of Michigan Confidence	Apr P	81.0	80.0

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