Interest Rate Risk Management Weekly Update

November 23, 2015

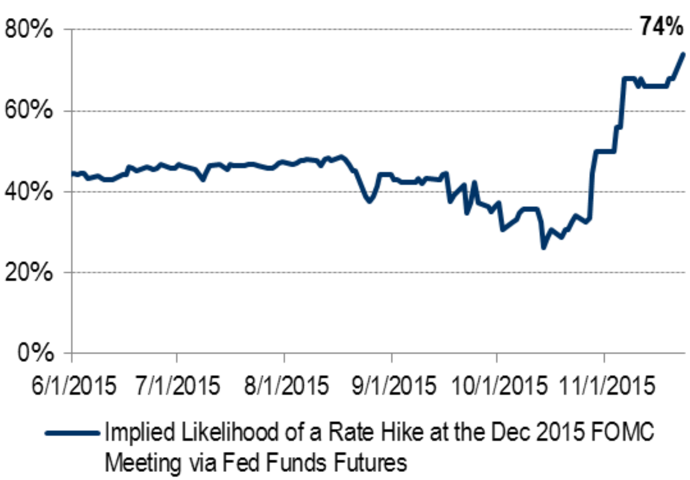
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change	
1-Month LIBOR	0.21%	0.20%	0.01%	↑
3-Month LIBOR	0.38%	0.36%	0.02%	↑
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%	0.84%	0.08%	↑
5-year Treasury	1.69%	1.65%	0.04%	↑
10-year Treasury	2.26%	2.27%	(0.01%)	↓
Swaps vs. 3M LIBOR				
2-year	1.01%	0.99%	0.02%	↑
5-year	1.63%	1.65%	(0.02%)	↓
10-year	2.14%	2.20%	(0.06%)	↓

Fedspeak & Economic News:

- Last week's release of the relatively hawkish October FOMC meeting minutes gave market participants another signal the Federal Reserve is prepared to raise the benchmark interest rate at the conclusion of the December meeting. The minutes also revealed a possibility that the committee's focus on inflation, and its key measures may be evolving. While they have always monitored a variety of metrics, a shift in focus to other indices may indicate that some fed officials are less worried by the effects of falling energy prices in their outlook for price stability.
- Fed officials continued their campaign to prepare markets and ensure there are no surprises when it initiates the first rate increase. Fed Vice Chairman Stanley Fischer, at a recent conference in San Francisco, commented that "We have done everything we can to avoid surprising the markets and governments when we move, to the extent that several emerging market (and other) central bankers have, for some time, been telling the Fed to 'just do it'." This suggests that markets have made their preparations as the Fed attempts to make its decision as forthright as possible. San Francisco Fed President John Williams, often seen as one of the more influential central bankers, also thinks there is a strong case to be made for a rate hike in December. He joined other Fed officials to emphasize the view that it is not the first hike that is crucial, but the pace of the increases. At the moment, it appears that the core of the FOMC is looking for roughly 100bps of tightening per year until it reaches its long term target.
- Though the upcoming week will be shortened due to the holiday, it will nonetheless be data heavy and should provide some key metrics for the FOMC to evaluate. Shoppers officially kick-off the holiday season this Friday, and policy makers and market participants alike will look to the numbers for guidance on economic growth for the remainder of the year. Consumer confidence, after bottoming out in September, rebounded sharply in October as concerns about financial markets and global growth over the Summer have faded. Personal income and spending data could bolster the notion. Additionally, contrary to the previous two years of harsh winters, economic activity could be boosted by the El Nino weather pattern that suggests a mild winter for much of the country. If this week's data, along with the November jobs report due the first week of December, continue the trend we have seen of positive economic news we have seen recently, that should reinforce the case for liftoff this year.

Implied Likelihood of a December Rate Hike



Sources: Bloomberg

A hawkish October FOMC statement and a smorgasboard of better-than-expected US economic data have convinced the market that a December liftoff is more likely than ever. The question is shifting from "when" to "how quickly?" In other words, how gradual will the Fed increase rates? There are reasons to think the pace of this hiking cycle will be slower than the previous: the Fed will be one of the first major central banks to hike rates (potentially leading to a stronger U.S. dollar) and Fed officials have indicated this in their speeches and interviews. However, in the two previous cycles, the FOMC raised rates ahead of market expectations and Fed staff projections, which indicates that there is risk to upside for the expected path of interest rates, especially with the market having a more benign outlook than the Fed.

The Week Ahead

- Despite the holiday ahead of us, there will be plenty of economic data, with one of the more profound releases being third-quarter US GDP.

Date	Indicator	For	Forecast	Last
23-Nov	Markit US Manufacturing PMI	Nov P	52.6 (A)	54.10
23-Nov	Existing Home Sales	Oct	5.36m	5.55m
24-Nov	GDP Annualized QoQ	3Q S	2.1%	1.5%
24-Nov	Consumer Confidence Index	Nov	99.5	97.6
25-Nov	Initial Jobless Claims	21-Nov	270k	271k
25-Nov	U. of Mich. Sentiment	Nov F	93.1	93.1
25-Nov	Durable Goods Orders	Oct P	1.6%	(1.2%)
25-Nov	New Home Sales	Oct	500k	468k
25-Nov	Personal Income	Oct	0.4%	0.1%
25-Nov	Personal Spending	Oct	0.3%	0.1%

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