Interest Rate Risk Management Weekly Update

December 15, 2014

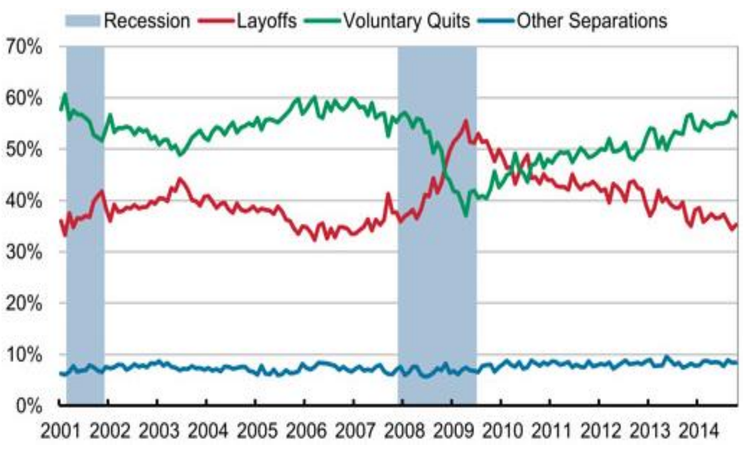
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.16%	0.16%	0.00%
3-Month LIBOR	0.24%	0.24%	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	0.54%	0.63%	(0.09%)
5-year Treasury	1.51%	1.68%	(0.17%)
10-year Treasury	2.08%	2.31%	(0.23%)
Swaps vs. 3M LIBOR			
2-year	0.83%	0.90%	(0.07%)
5-year	1.71%	1.87%	(0.16%)
10-year	2.26%	2.47%	(0.21%)

Fed Speak & Economic News:

- A bleaker global outlook pushed US Treasury yields lower for the week with longer dated bonds being bought aggressively, resulting in a flatter yield curve. Remarkably, since the start of the year, swap rates have increased at the shorter end of the curve (2-year swap rates are 29bps higher), but have fallen considerably at the longer end (10-year swap rates are down 88bps). Pressure comes from weaker economic data in Japan, China, and Europe, where further monetary policy easing is expected. ECB Chief Economist Praet said the central bank stands ready to take additional steps, which market participants interpreted as sovereign debt purchases to be announced at the ECB's next committee meeting in January. In Asia, disappointing export data, and inflation readings at a five-year low, prompted the PBoC to hint at further easing measures. Japanese citizens, meanwhile, reiterated their commitment to Prime Minister Shinzo Abe, and his 'Abencomics' policies, by re-electing him to another four-year term in a landslide victory.
- Disinflationary pressure across the globe continues to build as falling oil prices add to the concern, driving down long-term rates via inflation expectations. Markets this week reacted to forecasted demand cuts by OPEC and IEA, sending the price of Brent crude oil near $60, the lowest since July 2009. As the market continues to focus on the negatives of lower oil prices, consumers could see a boost just in time for the holiday season. Gasoline typically makes up approximately three-percent of consumer spending and any savings could have a direct impact on retail sales. Evidence of this was provided by November's retail sales numbers, which easily beat economists' expectations. December is also projected to be strong, capping off a solid year for the retail sector.
- When the FOMC meets this week (Dec 16-17), it is widely anticipated they will drop the phrase "considerable time" when discussing rate normalization. It is possible they will replace it with "patient", as recent Fedspeak has indicated a potential adjustment to their forward guidance. If history is any predictor of the future, the FOMC in its January 2004 statement, made a similar change from "considerable period" to "patient" and proceeded to hike rates six months later in July 2004. This would be consistent with comments from San Francisco Fed President Williams, NY Fed President Dudley, Vice Chair Fischer, and Atlanta Fed President Lockhart who have all recently stated that a mid-2015 rate-hike would be realistic.

Other Indicators of a Firming Job Market



Following an impressive jobs report for November, the Job Openings and Labor Turnover Survey (JOLTS) revealed further evidence of how far the Labor Market has come. The number of people voluntarily quitting their jobs has now risen to levels not seen since the recession began. This is a positive sign for the overall economy as more voluntary quits indicate workers are confident enough to leave their jobs, anticipating better opportunities including higher pay. Higher wage growth is the next step to follow in this prolonged recovery, and a measure that Fed Chair Yellen has been watching closely.

U.S. Economic Data

- NFIB Small Business Optimism printed better than expected at 98.1 vs consensus estimates of 96.5, a level not seen since early 2007
- Retail Sales MoM were higher than expected, reported at 0.7% vs survey of 0.4%; the previous month's reading was also revised higher to 0.5% from 0.3%
- PPI Ex Food and Energy MoM inched higher to 0.1% vs expectation of 0.0%

Date	Indicator	For	Forecast	Last
15-Dec	Empire Manufacturing	Dec	12.00	10.16
15-Dec	Industrial Production MoM	Nov	0.7%	(0.1%)
15-Dec	Capacity Utilization	Nov	79.4%	78.9%
16-Dec	Housing Starts	Nov	1040K	1009K
16-Dec	Markit US Manufacturing PMI	Dec P	55.5	54.8
17-Dec	CPI MoM	Nov	(0.1%)	0.0%

Source: Bloomberg, U.S. Department of Labor, The Wall Street Journal

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