

Interest Rate Risk Management Weekly Update

April 14, 2014

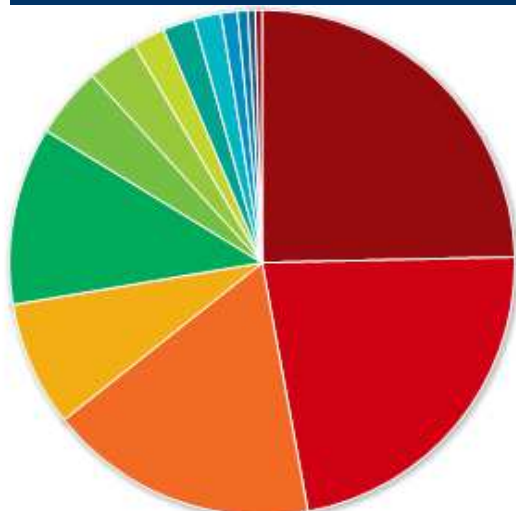
Current Rate Environment

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	0.36%	0.41%	(0.05%) ↓
5-year Treasury	1.58%	1.70%	(0.12%) ↓
10-year Treasury	2.63%	2.72%	(0.09%) ↓
Swaps vs. 3M LIBOR			
2-year	0.54%	0.59%	(0.05%) ↓
5-year	1.74%	1.84%	(0.10%) ↓
10-year	2.79%	2.88%	(0.09%) ↓

Fed Speak & Economic News:

- The release of the Fed minutes from the March 18 – 19 meeting dominated market action last week. Market participants were eager to assess how the minutes would stack up against the Fed's released forecasts and Yellen's post-meeting press conference when new judgments about the potential timing of rate hikes caused a spike in yields. However, the release of the minutes actually drove rates down with the five-year Treasury yield dropping seven basis points. Markets were also interested to learn about a secret video conference the Fed had in early March, before the scheduled FOMC meeting, during which policymakers concluded that the 6.5 percent unemployment rate target should be dropped because it was not a reliable reflection of the strength of the economy.
- Fed communications have driven rate volatility recently and they may have the opportunity to keep up the trend again this week during the 2014 Financial Markets Conference sponsored by the Federal Reserve Bank of Atlanta. Fed Chair Yellen will kick off the meeting with opening remarks by video tomorrow. The two day conference will include sessions featuring other Fed and Treasury officials as well as representatives from the banking sector and academia. Topics will range from the "experiment" of quantitative easing to "improving the information environment" and policies that "seek to limit market practice" in order to promote stability.
- The IMF meetings continue in Washington, D.C. this week. Markets are especially anticipating remarks by ECB President Draghi after his comments this past weekend underscored the likelihood of stimulus prompted by the strong euro and low inflation.
- Please note that we have a holiday-shortened week ahead. The U.S. bond markets will close early, at 2pm, on Thursday. Both the bond and equity markets will be closed on Friday in observation of Good Friday.
- Interest rates are climbing this morning on the back of better-than-expected retail sales figures. Retail sales bounced 1.1 percent during March, two tenths of a percentage point above the forecast, to the best result in a year-and-a-half. The previous month was also revised up to 0.7 percent, more than doubling the initial figure. The return of the American consumer is being attributed to the break in the harsh winter weather and forecasters are already optimistic that this turnaround is a sign of things to come as we head into the spring and summer with the labor market expected to continue to improve.

How are our Federal Taxes Spent?



- National Defense : 24.64 %
- Health Care : 22.45 %
- Jobs and Family Security : 17.26 %
- Net Interest : 8.01 %
- Additional Government Programs : 11.38 %
- Veterans Benefits : 4.53 %
- Education and Job Training : 3.3 %
- Natural Resources, Energy and Environment : 2.05 %
- Immigration, Law Enforcement, and Administration of Justice : 2.05 %
- International Affairs : 1.72 %
- Science Space and Technology Programs : 1.06 %
- Agriculture : 0.65 %
- Community, Area, and Regional Development : 0.48 %
- Response to National Disasters : 0.43 %

Source: The White House

U.S. Economic Data

- Wholesale inventories for February were 0.5%, as expected, though the previous release was revised up from 0.6% to 0.8%.
- Weekly initial unemployment claims reported last week ticked down by 32,000. This brings the 4-week moving average to an optimistic 316,000.
- PPI surprised significantly to the upside, posting an increase of 0.5% compared to forecasts of 0.1%.

Date	Indicator	For	Forecast	Last
14-Apr	Retail Sales	Mar	0.90%	0.30%
15-Apr	Empire Manufacturing	Apr	8.00	5.61
15-Apr	CPI MoM	Mar	0.10%	0.10%
16-Apr	MBA Mortgage Applications	11-Apr	-	-1.60%
16-Apr	Housing Starts	Mar	975K	907K%
16-Apr	Industrial Production	Mar	0.50%	0.60%
16-Apr	U.S. Fed Releases Beige Book	-	-	-
17-Apr	Initial Jobless Claims	12-Apr	315K	300K
17-Apr	Phil Fed Business Outlook	Apr	10.0	9.0

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