Interest Rate Risk Management Weekly Update

June 29, 2015

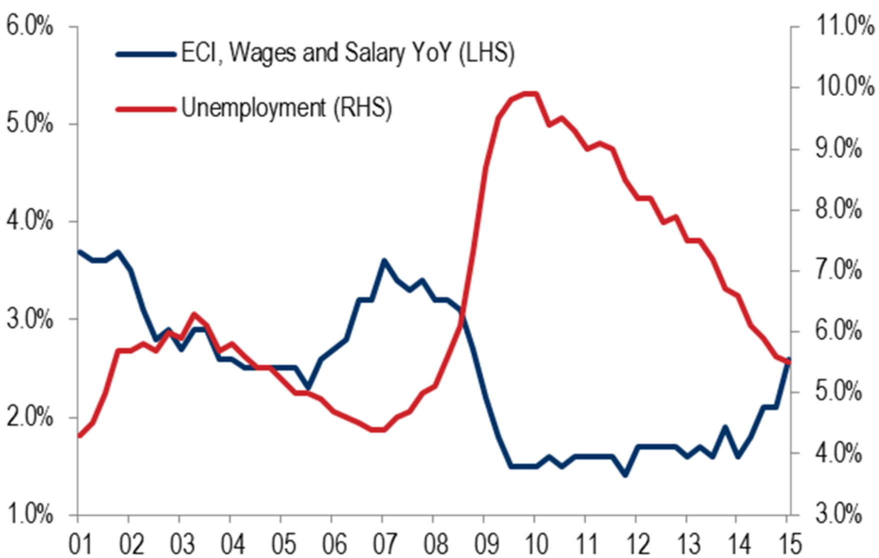
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change	
1-Month LIBOR	0.19%	0.19%	0.00%	○
3-Month LIBOR	0.28%	0.28%	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	0.72%	0.62%	0.10%	↑
5-year Treasury	1.76%	1.57%	0.19%	↑
10-year Treasury	2.47%	2.26%	0.21%	↑
Swaps vs. 3M LIBOR				
2-year	0.99%	0.92%	0.07%	↑
5-year	1.92%	1.76%	0.16%	↑
10-year	2.61%	2.39%	0.22%	↑

Fedspeak & Economic News:

- US Treasuries finished the week much lower, which has been a recurring theme over the past few weeks. Data compiled by researchers show that market participants departed bond mutual and exchange-traded funds to the tune of $4 billion in favor of equities. During the past two weeks, we have seen some of the heaviest bond outflows in two years. This move could signal a fundamental change in asset allocation in preparation for the impending shift in global monetary policy to higher rates. It would mean that investors are less concerned with near-term volatility drivers than they are with where central banks are steering policy. It would also mean that the Greek debt impasse is playing less of a role in driving US Treasury yields lately than previously thought.
- The week ahead promises to be a doozy. At the risk of sounding like a broken record, the convergence between fear and reality is fast approaching as Greece and its creditors look to find enough common ground to end the debt impasse. It feels as if there have been so many offers and deals that it is difficult to know exactly when we have reached the brink, but we can say without hesitation that it is near. June 30 (Tuesday) is the deadline for Greece to make its EUR1.5 billion IMF payment, but Moody's has already mentioned that it would not consider missing the payment a default, so technically, a missed payment would not constitute a credit event; however, do not underestimate its ability to catalyze a chain reaction in the market, with both known and unknown aftereffects. Markets might conclude that such an event would signal Greece's departure from the euro.
- Failure to formalize a deal in time would mean no further extension of the Emergency Liquidity Assistance (ELA) and include multiple officials implementing plans to "ring fence" Greece in order to limit the damaging effects of a non-technical default. The plans are believed to include capital controls – measures taken to limit the flow of foreign capital – and a withdrawal of aid packages. In any case, it is important to understand that the EUR3.5 billion payment to the European Central Bank on July 20 is considered more important than the IMF payment. US Treasuries, being the bedrock of safe-haven assets, will likely see some volatility as we approach the deadline. If the payment is missed, we could see a very profound rally in US Treasuries; however, if a deal is reached, a selloff would likely be limited given that the market has already been infected with enough optimism to warrant part of the 21-basis-point rise in the 10-year US Treasury Bond's yield seen over the past week.

A Tightening Labor Market



Sources: Bloomberg, US Bureau of Labor Statistics

As the labor market continues to move in a positive direction, one has to question how much further improvement has to be made for the FOMC to be satisfied. Wages and salaries (left hand side of the graph) have started to pick up over the last 12-18 months and the momentum is certainly in employees' favor, while the unemployment rate (right hand side of the graph) has steadily been dropping for the last 5 years. Thursday's jobs report will be another crucial data set for the central bank as higher wage growth will begin putting pressure on inflation.

The Week Ahead

- Greek banks will be closed for six days starting Monday, with restrictions on ATM withdrawals
- Without an agreement, Greece will be unable to make its €1.5bn debt payment due to the IMF on June 30
- June's payroll numbers will be released this Thursday, a day earlier than usual due to the July 4 holiday

Date	Indicator	For	Forecast	Last
30-Jun	Consumer Confidence Index	Jun	97.1	95.4
1-Jul	ADP Employment Change	Jun	215k	201k
1-Jul	Markit US Manufacturing PMI	Jun F	53.4	53.4
1-Jul	Construction Spending MoM	May	0.5%	2.2%
2-Jul	Change in Nonfarm Payrolls	Jun	230k	280k
2-Jul	Average Hourly Earnings MoM	Jun	0.2%	0.3%
2-Jul	Factory Orders	May	(0.5%)	(0.4%)

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