

Current Rate Environment

Short Term Rates	Thursday	Prior Week	Change
1-Month LIBOR	0.19%	0.19%	0.00% ○
3-Month LIBOR	0.30%	0.29%	0.01% ↑
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	0.66%	0.68%	(0.02%) ↓
5-year Treasury	1.53%	1.62%	(0.09%) ↓
10-year Treasury	2.18%	2.26%	(0.08%) ↓
Swaps vs. 3M LIBOR			
2-year	0.95%	0.98%	(0.03%) ↓
5-year	1.72%	1.80%	(0.08%) ↓
10-year	2.32%	2.40%	(0.08%) ↓

Fedspeak & Economic News:

- During the second quarter, the US economy was not too hot nor was it too cold; that was the general impression as GDP growth was reported at a moderate pace of 2.3 percent. Another optimistic signal came in the form of an upward revision to the first quarter's result, showing growth in the March period at 0.6 percent compared to the previous reading of a 0.2 percent contraction. Given the recent rhetoric from the Fed, things appear to be moving in the right direction to begin rate normalization. New York Fed President Dudley recently noted, "If we hit 2.5 percent growth in the second quarter and it looks like the third quarter is shaping up for something similar, then we think you are on a firm enough track that you could imagine you would have made sufficient progress." The FOMC statement following the July meeting leaned on the hawkish side as committee members upgraded their outlook of the labor market and noted "solid" job gains as "underutilization of labor resources has diminished".
- The Employment Cost Index grabbed headlines on Friday as it reached its lowest ever reading in its 33 years of reporting, implying that wage data is imperiously anemic. However, the weakness was focused in one sector: sales-based jobs. Economists noted that these jobs are generally more commission and bonus-based, and any changes in these payments could drive the volatility. Markets reacted by sending the dollar lower against a basket of its peers as softening labor metrics could cause the data-dependent Fed to delay lift-off. To be sure, one negative data point will be insufficient to sway the decision making process, but emergence of a trend could be enough to derail the current plans. The market is now pricing in a more than 40-percent chance for a September hike. San Francisco Fed President Williams' recent comment justified current Fed thinking in this economic environment when he said, "I want to see continued improvement, but it's not surprising, and it's actually desirable, that the pace is slowing." The bar for the first rate hike appears to be set relatively low and should the economy continue on the path that it has been, the first rate hike is expected this year.
- While the finer details of the third bailout for Greece are being worked out, the deadline of August 20 looms as the date a large payment to the ECB is due. The IMF continues to pressure the European Union for debt relief for Greece as the only sustainable way for recovery; however, current regulation will make this challenging, as a majority of the debt is owned by institutions.

A September Rate Hike is on The Table



In its latest statement, the Fed did not provide a distinct signal as to when it would begin the start of the hiking cycle. However, there really was not any reason to provide one since the decision to hike is data dependent. That being said, we have plenty of economic releases ahead of us before the September 16-17 meeting, including two jobs reports – one of which will be released this Friday. The market is pricing in about a ~40 percent likelihood of a hike at that meeting, which is up sharply from levels seen in late-June and early July.

The Week Ahead

- A number of important economic data points will be released this week, including the July jobs report
- The Bank of Japan will conclude its two-day meeting on Thursday, with a press conference to follow shortly after

Date	Indicator	For	Forecast	Last
3-Aug	Personal Income	Jun	0.3%	0.5%
3-Aug	Personal Spending	Jun	0.2%	0.9%
3-Aug	Markit Manufacturing PMI	Jul F	53.8	53.8
3-Aug	ISM Manufacturing	Jul	53.5	53.5
4-Aug	Factory Orders	Jun	1.7%	(1.0%)
5-Aug	ADP Employment Change	Jul	210K	237K
5-Aug	Trade Balance	Jun	-\$42.90B	-\$41.87B
7-Aug	Change in Nonfarm Payrolls	Jul	225K	223K
7-Aug	Unemployment Rate	Jul	5.3%	5.3%

Sources: Bloomberg

Group Head

Matt Milcetic
216-689-3141

Cleveland, OH

David Bowen 216-689-3925
Mary Coe 216-689-4606
Dusko Djukic 216-689-4224
Sam Donzelli 216-689-3635
Anand Gomes 216-689-4932
Frank Kuriakuz 216-689-4071

Seattle, WA

Greg Dawli 206-689-2971
Wil Spink 206-689-2972

Documentation

Ramona Berce 413-567-6758
Linda Maraldo 216-689-0516
Marybeth Simon 216-689-0897



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Matt Milcetic
216-689-3141

Cleveland, OH

David Bowen Mary Coe Dusko Djukic Sam Donzelli Anand Gomes Frank Kuriakuz
216-689-3925 216-689-4606 216-689-4224 216-689-3635 216-689-4932 216-689-4071

Seattle, WA

Greg Dawli Wil Spink
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Ramona Berce Linda Maraldo Marybeth Simon
413-567-6758 216-689-0516 216-689-0897