

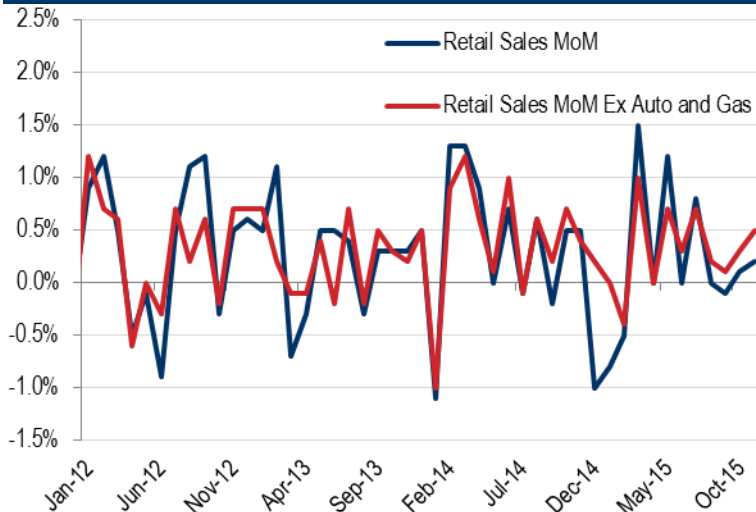
## Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.42%	0.43%	(0.01%) ↓
3-Month LIBOR	0.62%	0.61%	0.01% ↑
Fed Funds	0.50%	0.50%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.50%	3.50%	0.00% ○
<b>US Treasury Yields</b>			
2-year Treasury	0.93%	1.05%	(0.12%) ↓
5-year Treasury	1.56%	1.76%	(0.20%) ↓
10-year Treasury	2.12%	2.27%	(0.15%) ↓
<b>Swaps vs. 3M LIBOR</b>			
2-year	1.07%	1.23%	(0.16%) ↓
5-year	1.55%	1.78%	(0.23%) ↓
10-year	2.03%	2.24%	(0.21%) ↓

## Fedspeak & Economic News:

- The first week of the New Year got off to a shaky start to say the least. Similar to the August 2015 market downturn, weak economic data from China sent rumbles through the global financial system. While arguably the economic data this time around wasn't terrible and a bit less surprising, market reaction has been substantial. The Shanghai Composite Index fell nearly 15 percent in its first week of trading for year. The weakness led to a global sell-off that had macroeconomic implications. Emerging market currencies were dragged lower with the yuan, equities across the world fell, and the entire commodities complex continued to decline. Research analysts point to the perceived mishandling of the situation by policymakers in China and suggest they are inadvertently causing instability as their actions seem reactive and ill-communicated in their effort to maintain total control of an increasingly complex financial system. The imposed circuit breakers were declared too narrow by investors and caused a rush to close out positions prior to being locked out.
- As crude oil desperately searches for a floor, renewed tension in the Middle East provided no relief. Oil prices reached a 12-year low, and are falling further as tension between Iran and Saudi Arabia have once again been inflamed. The strain came to a head last week when a Shia cleric was executed by the Kingdom's justice system. Diplomatic ties were officially cut between the two nations, with allies of the Kingdom also limiting relations with Iran. The tension brings further downward pressure on oil prices as the days of OPEC, which has served as an effective vehicle for controlling world crude oil prices over several decades, appear numbered. As energy prices continue to tumble, inflation prospects in the near term stay tempered, and thus various central banks' ability to reach their stated price targets.
- The US economy continued its march forward, removing doubt from preliminary Q4 data that growth may be slowing. The headline figure for December's payroll report was significantly stronger than expected, showing job gains of +292k vs consensus of +211k. The previous two months also saw additional positive news as they were revised higher by +50k. The advances were broad based, but an uptick in the participation rate kept unemployment unchanged at five percent. In an interview Thursday, Fed Vice Chairman Stanley Fischer warned that investors are underestimating the probability of future rate hikes. He reiterated that Fed officials currently anticipate approximately four hikes this year, compared to the two hikes that market pricing is implying at the moment.

## Retail Validation



Sources: Bloomberg

US consumers continue to be the bright spot amid the global haze. While the labor market proved robust in December, Friday will gauge the strength of retail sales figures for that same period. Generally as job growth continues, spending follows. Though the headline figure will be carefully watched, the numbers excluding auto sales and gasoline will be a more accurate bellwether due to the leveling off of car sales and the recent decline in energy prices. If the retail numbers disappoint, the ability of the US economy to grow above trend will be called into doubt.

## The Week Ahead

- We will see Fedspeak from Atlanta's Lockhart and Dallas' Kaplan (Mon), Richmond's Lacker (Tue), Boston's Rosengren and Chicago's Evans (Wed), St. Louis' Bullard (Thursday), and New York's Dudley (Friday).
- The ECB will publish the minutes to its Dec 2-3 monetary policy meeting on Wednesday.
- US President Barack Obama will deliver the State of the Union Address on Tuesday at 9:00 p.m.
- The most important economic releases of the week come on Friday: US retail sales and industrial production.

Date	Indicator	For	Forecast	Last
13-Jan	U.S. Federal Reserve Beige Book			
15-Jan	U. of Mich. Sentiment	Jan P	92.9	92.6
15-Jan	Retail Sales Advance MoM	Dec	(0.1%)	0.2%
15-Jan	Industrial Production MoM	Dec	(0.2%)	(0.6%)
15-Jan	PPI Final Demand MoM	Dec	(0.2%)	0.3%
15-Jan	Empire Manufacturing	Jan P	(4.00)	(4.59)



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