

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	0.43%	0.56%	(0.13%) ↓
5-year Treasury	1.53%	1.72%	(0.19%) ↓
10-year Treasury	2.28%	2.44%	(0.16%) ↓

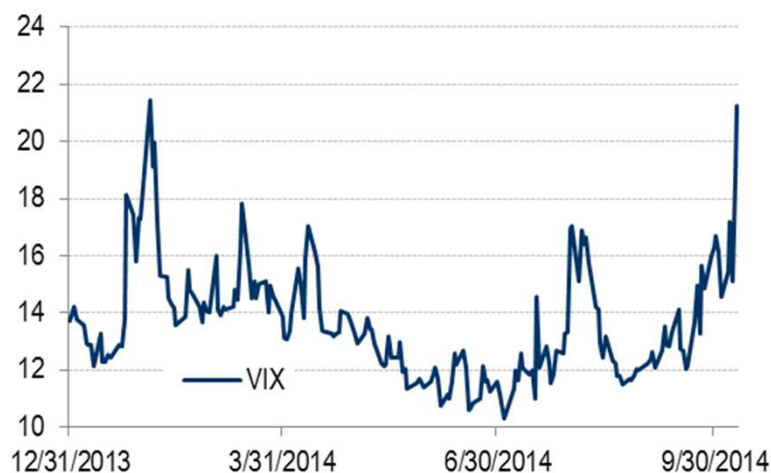
Swaps vs. 3M LIBOR

2-year	0.74%	0.87%	(0.13%) ↓
5-year	1.76%	1.96%	(0.20%) ↓
10-year	2.47%	2.64%	(0.17%) ↓

Fed Speak & Economic News:

- The world economy continued to slide last week. On Tuesday, the International Monetary Fund cut its global economic growth forecast in 2014 by 0.4 percent to 3.3 percent, sending markets tumbling. Data from Germany, traditionally the Eurozone's powerhouse economy, continue to be very disappointing, with exports having fallen by the most since the start of the global financial crisis in January 2009 and industrial production having declined far more than expected. The IMF indicated that there is a forty percent chance that the Eurozone falls into another recession, which would be the third recession of the last five years.
- Despite a brief light at the end of the tunnel following easing monetary policy efforts from Prime Minister Shinzo Abe, Japan again sees gloom in the form of another recession. Growth continues to be impeded by a consumption tax increase that went into effect earlier this year as Japan looks for ways to pay down its onerous public debt. Abe now faces a tough decision in approving a second tax increase at year-end. Raising taxes now would help bring the country's public finances in order before its population grows too old to pay for it, though it would also increase the rise of stifled growth prospects.
- The strengthening US dollar is likely to bode well for the eurozone and Japan as they benefit from a much-needed boost to their slumping economies. Exporters in those nations will be more competitive as their goods become relatively less expensive and costlier imports defend against deflation. The greenback's persistent rise, however, is beginning to be a source of unease for domestic policy makers as they pay closer attention to its effects on the broad economy. Some FOMC members, noted in the September's Fed Minutes, are concerned about disinflationary pressures from a stronger currency as well as a less than favorable impact on domestic economic growth.
- In response, some investors are betting on a later start to an increase in interest rates. US short-term interest rate futures on Wednesday reached levels that suggest a less-than-fifty percent chance of a rate hike at the end of second quarter in 2015. Federal Reserve members continue to be troubled by the private sector's disregard for their forecasts. St. Louis Federal Reserve Governor James Bullard commented on Friday that the market is making a "mistake" by ignoring the Fed's projection.

Turbulence in the Market



The CBOE Volatility index, constructed by using volatility levels implied by S&P 500 stock index options prices, hit 21.24 on Friday, which is above its 20-year average of 20.8. Markets were rattled by a number of things: a stronger dollar, forecasts released from the IMF, bleak economic data from the eurozone, a European Central Bank that is finding it difficult to combat the prospect of deflation, an Ebola outbreak continuing to spread, and various Fed governors speaking throughout the week. With the Fed expected to fully end QE at its next meeting on Oct 28-29, the protracted era of ultra-low volatility resulting from an easy monetary policy is likely to end with it.

U.S. Economic Data

- Wholesale inventories increased by 0.7% MoM vs 0.3% expected
- Initial jobless claims printed at 287k vs 295k, which suggests that job creation continued in early October
- The import price index decreased by 0.5% MoM vs -0.7% expected

Date	Indicator	For	Forecast	Last
15-Oct	Retail Sales Advance MoM	Sep	(0.2%)	0.6%
15-Oct	PPI Final Demand MoM	Sep	0.1%	0.0%
15-Oct	Empire Manufacturing	Oct	20.95	27.54
16-Oct	Industrial Production MoM	Sep	0.4%	(0.1%)
16-Oct	Philadelphia Fed Business Outlook	Oct	19.8	22.5
17-Oct	Univ. of Michigan Confidence	Oct P	84.0	84.6
17-Oct	Housing Starts	Sep	1005k	956k

Source: Bloomberg, Financial Times, Wall Street Journal

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