

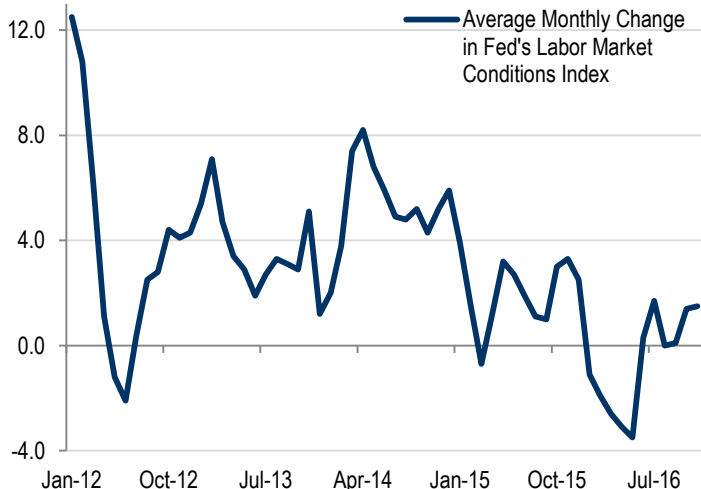
Current Rate Environment

Short Term Rates	Friday	Prior Week	Today's Change
1-Month LIBOR	0.65%	0.61%	0.04% ↑
3-Month LIBOR	0.95%	0.94%	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% ○
US Treasury Yields			
2-year Treasury	1.10%	1.12%	(0.02%) ↓
5-year Treasury	1.82%	1.84%	(0.02%) ↓
10-year Treasury	2.38%	2.36%	0.02% ↑
Swaps vs. 3M LIBOR			
2-year	1.36%	1.38%	(0.02%) ↓
5-year	1.86%	1.87%	(0.01%) ↓
10-year	2.28%	2.23%	0.05% ↑

Fedspeak & Economic News:

- The stock market, bond yields, core inflation, US dollar, and oil prices all moved higher last week amid the continuous flow of global economic news and events. At home, the November labor market report was somewhat mixed but perfectly in line with what the Federal Reserve considers acceptable, and investors firmly believe the last hurdle was cleared for a rate hike to be announced at the December FOMC meeting. Measures of core inflation moved higher as measured by 5yr TIPS break-evens, which widened to over 2.1 percent. Abroad, OPEC reached a landmark deal to curtail production by 1.2 million barrels per day with more cuts to follow from non-OPEC members, sending oil prices to 16-month highs. Meanwhile, comments from incoming U.S. Treasury Secretary Steven Mnuchin partly suggested an increased supply of longer dated treasuries as the term structure of US debt could shift. He was quoted as saying, "we will look at potentially extending the maturity of the debt because eventually we are going to have higher interest rates, and that is something this country is going to need to deal with." When asked about 50yr or 100yr maturity bonds, he added that "we'll take a look at everything and see what makes sense." As with previous introductions of new types of treasuries, it would likely take a few years of preparing markets before any new issuances could be sold, but the message received by investors was that rates would not be held down forever.
- With no major US economic data releases this week and the Fed entering the blackout period of speaking events prior next week's FOMC meeting, attention shifts to Europe. The European Central Bank concludes its policy meeting on Thursday and could decide the fate of the quantitative easing program. Consensus expectations are that the program will be extended by six months past the otherwise March 2017 maturity. ECB President Mario Draghi will also have to contend with the ever increasing political dysfunction in the Eurozone. Italy's Prime Minister Matteo Renzi is set to resign following Italy's "No" vote on its proposed constitutional referendum, raising the specter of years of gridlock as various political groups jockey for power and sending the euro to a 20-month low. Unlike with Brexit and the surprise results of the US presidential election, market participants were far more prepared for the Italy's result, enabling the euro to rebound as the news was fully digested.

Nearing Full Employment



Headline numbers in November's jobs report showed further improvement in the overall labor force. Nonfarm payrolls increased +178k for the month, in line with expectations, and U-3 unemployment dropped from 4.9 percent to a post-recession low of 4.6 percent. Digging deeper, the U-6 underemployment rate also dropped sharply, to the lowest level since April 2008. While most signs were positive, the labor force participation rate slipped to 62.8 percent (in part due to retiring baby boomers) and wage growth backtracked for the month (though it still sits at a healthy 2.5 percent YTD level). Overall, the Fed's index measuring the complete labor force continued to trend in a positive direction.

The Week Ahead

- The **blackout period** of Fedspeak begins Tuesday ahead of the December 13-14 FOMC Meeting
- The **ECB** will conclude its policy meeting on Thursday; an extension of QE is expected, though other measures could be announced

Date	Indicator	For	Forecast	Last
5-Dec	Markit US Services PMI	Nov F	54.8	54.7
5-Dec	ISM Non-Manf. Composite	Nov	55.5	54.8
6-Dec	Trade Balance	Oct	-\$42.0b	-\$36.4b
6-Dec	Factory Orders	Oct	2.5%	0.3%
6-Dec	Durable Goods Orders	Oct F	2.0%	4.8%
7-Dec	JOLTS Job Openings	Oct	5445	5486
9-Dec	Wholesale Inventories MoM	Oct F	-0.4%	-0.4%
9-Dec	U. of Mich Sentiment	Dec P	94.4	93.8

Source: Bloomberg, Federal Reserve, BLS



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