Interest Rate Risk Management Weekly Update

July 25, 2016

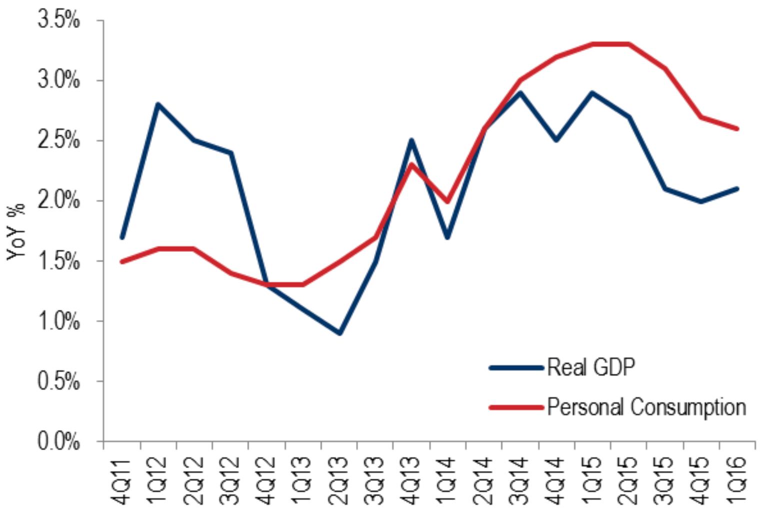
Current Rate Environment

Short Term Rates	Friday	Prior Week	Today's Change	
1-Month LIBOR	0.49%	0.48%	0.01%	↑
3-Month LIBOR	0.72%	0.69%	0.03%	↑
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	0.70%	0.67%	0.03%	↑
5-year Treasury	1.12%	1.11%	0.01%	↑
10-year Treasury	1.57%	1.55%	0.02%	↑
Swaps vs. 3M LIBOR				
2-year	1.02%	0.93%	0.09%	↑
5-year	1.22%	1.14%	0.08%	↑
10-year	1.53%	1.46%	0.07%	↑

Fedspeak & Economic News:

- US Treasuries were relatively range-bound last week compared to previous weeks, which is most likely due to the dearth of top tier economic data and geopolitical news. The market has sold off significantly from its post-Brexit lows in light of stronger-than-expected economic data and an uptick in risk appetite. US Treasury and German government bond yields are now only ~20 and ~10bps below their pre-Brexit levels.
- Global central banks have done their part well to keep the markets calm and orderly, all avoiding an overreaction to Britain's referendum. The European Central Bank concluded its meeting on Thursday last week. Its officials kept existing policy on course, indicating they would continue to monitor economic conditions and financial developments closely. ECB President Draghi noted that "financial markets have weathered the spike in volatility with encouraging resilience". During the previous week, the Bank of England kept its target rate unchanged; however, officials indicated that quantitative easing could be introduced at the August 4th meeting, depending on the evolution of economic data. The first round of important data from Britain last week suggested the economy has fared well after the vote, but many analysts expect the reports in the coming weeks to show the true impact of the decision to leave.
- This week the focus will be on the Fed's meeting, which is set to conclude Wednesday. The Fed is likely to acknowledge the improvement in the US economy in its statement but that it will continue to monitor economic conditions. Job gains have rebounded quite well from the anemic May labor report and personal consumption growth has accelerated to 4.5% annualized. The Fed is expected to keep the policy statement largely unchanged, but will likely keep its options open for the next meeting in September. Risks of a surprise hawkish statement could pave the way for the next hike given compliant economic conditions. The tactic would be similar to the October 2015 statement that set up the rate hike in December. The market currently implies ~28% chance that we will see a rate hike in September.
- In addition to the FOMC meeting, the Bank of Japan meets, a G20 gathering of finance ministers and central bankers in China, and quarterly results of 200 of the S&P 500 companies will all provide ample news for markets to digest.

Consumers Lead the Way



Source: Bloomberg, BEA

After a slow first quarter, consumers in the US appear to be back in full force. Confidence levels reached eight-month highs, though Tuesday's print is expected to show a slight retracement to those numbers. Personal consumption supported the data, reporting growth at an annualized 4.5 percent. As a result, second quarter GDP is expected to be above trend, with consensus survey expectations of 2.6 percent growth. After a 1.1 percent pace for Q1, annualized GDP growth for the first half could be about 1.9 percent.

The Week Ahead

- **Federal Reserve policy makers** are projected to hold the line on interest rates on Wednesday at the conclusion of a two-day meeting as officials assess the impact of Britain's decision to leave the EU.
- The first print on **second quarter GDP** released Friday is projected to show an annualized increase of 2.6 percent.
- On Friday, **Bank of Japan** announces monetary policy and releases updated GDP and inflation forecasts, with many economists predicting a fresh wave of economic stimulus.

Date	Indicator	For	Forecast	Last
26-Jul	Consumer Confidence Index	Jul	95.5	98.0
26-Jul	New Home Sales	Jun	560k	551k
27-Jul	Durable Goods Orders	Jun P	-1.1%	-2.3%
29-Jul	U. of Mich. Sentiment	Jul F	90.0	89.5
1-Aug	Markit US Manufacturing PMI	Jul F		52.9
1-Aug	ISM Manufacturing	Jul	52.3	53.2

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