# Interest Rate Risk Management Weekly Update

August 22, 2016

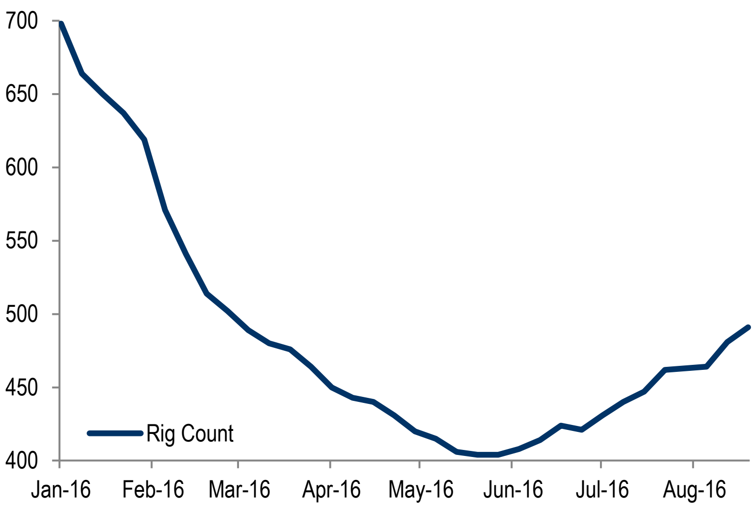
## Current Rate Environment

| Short Term Rates | Friday | Prior Week | Change |
|---|---|---|---|
| 1-Month LIBOR | 0.52% | 0.51% | 0.01% ↑ |
| 3-Month LIBOR | 0.82% | 0.82% | 0.00% |
| 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 | 0.75% | 0.71% | 0.04% ↑ |
| 5-year Treasury | 1.17% | 1.10% | 0.07% ↑ |
| 10-year Treasury | 1.58% | 1.51% | 0.07% ↑ |
| **Swaps vs. 3M LIBOR** | | | |
| 2-year | 1.05% | 1.01% | 0.04% ↑ |
| 5-year | 1.23% | 1.17% | 0.06% ↑ |
| 10-year | 1.49% | 1.45% | 0.04% ↑ |

### *Fedspeak & Economic News:*

- The Fed dominated headlines last week. The release of the July FOMC meeting minutes and Fedspeak from prominent officials New York Fed President William Dudley and San Francisco Fed President John Williams served as the focal points for the market. Against that backdrop, fed funds futures lifted the chances for a rate hike this year to 26 percent for September and 52 percent for December. The Fed will surely remain the center of attention this week as economists and central bankers gather in Jackson Hole for their annual symposium, featuring an address from Chair Janet Yellen.
- The release of the FOMC minutes from the July 26-27 meeting showed a split in thinking about the next rate hike. Interestingly, Fed presidents Dudley and Williams – some of the more dovish members of the Fed in – hit the wire with bullish comments on the economy and the future path of interest rates.
- Dudley's comments on Thursday leave the door open for a hike in September. He emphasized confidence in the labor market and looked to a pickup in wage growth as it "suggests we are getting closer to full employment." He added "for the first time in quite a while, gains in middle-wage jobs actually outnumber gains in higher- and lower-wage jobs nationwide". Williams, though not a voting member this year, remains an influential voice on the FOMC since he succeeded Fed Chair Janet Yellen as the president of the San Francisco Fed. His comments on Thursday echoed those he made prior to the Fed's last hike in December, saying "in the context of a strong domestic economy with good momentum, it makes sense to get back to a pace of gradual rate increases, preferably sooner rather than later. An earlier start to raising rates would allow a smoother, more gradual process of normalization." Williams is confident in the labor market as well, saying the U.S. is "pretty much at full employment now, so the future is less about meeting a goal and more about maintaining a result. The pace of job gains is well above what we need, which I put to be somewhere around 80,000 a month."
- The previous week's rhetoric could be setting the stage for Fed Chair Janet Yellen's speech scheduled on Friday. Market participants will look for clues Chair Yellen might offer about the Fed's intention when it meets next at the September 20-21 meeting, or for the remainder of 2016.

## Rising U.S. Rig Count




Despite the eighth straight week in rising rig counts for oil and natural gas producers, the longest streak since July 2011, oil prices have been steadily increasing. Crude oil finished $4/Bbl higher last week. The main driver was news surrounding the informal meeting in Algeria next month when talks with OPEC and non-OPEC producers are due to take place on a potential production freeze. While the news is positive for domestic energy producers, the increased prospects of a rate hike could strengthen the U.S. dollar and therefore limit the upside to oil prices.

*Source: Bloomberg, Baker Hughes*

## The Week Ahead

- The US economic calendar is brimming with top tier data, including **durable goods orders** (Thursday) and another reading on **second quarter GDP** (Friday)
- **US Fed Chair Janet Yelllen** will speak at the Kansas City Fed's annual Monetary Policy Symposium in Jackson Hole, Wyoming, on Friday.

| Date | Indicator | For | Forecast | Last |
|---|---|---|---|---|
| 23-Aug | New Home Sales | Jul | 580k | 592k |
| 23-Aug | Markit US Manufacturing PMI | Aug P | 52.7 | 52.9 |
| 24-Aug | Existing Home Sales | Jul | 5.51m | 5.57m |
| 25-Aug | Durable Goods Orders | Jul P | 3.5% | -3.9% |
| 26-Aug | GDP Annualized QoQ | 2Q S | 1.1% | 1.2% |
| 26-Aug | U. of Mich. Sentiment | Aug F | 90.7 | 90.4 |
| 26-Aug | Wholesale Inventories MoM | Jul P | 0.2% | 0.3% |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