Interest Rate Risk Management Weekly Update

August 29, 2016

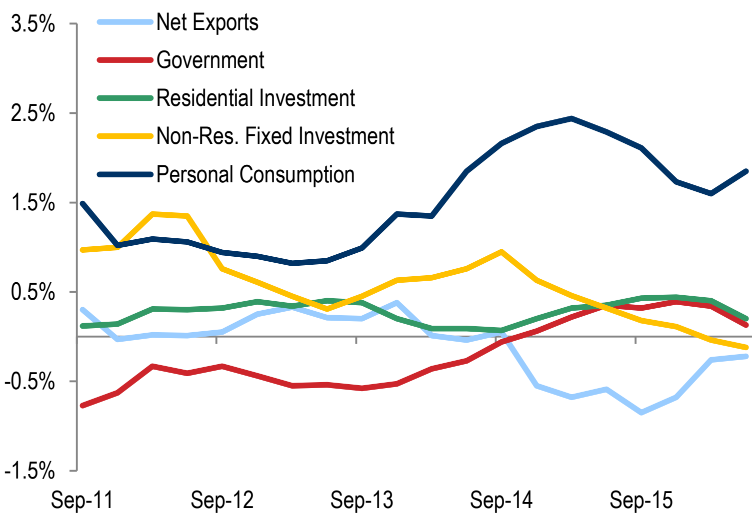
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change	
1-Month LIBOR	0.52%	0.52%	0.00%	○
3-Month LIBOR	0.83%	0.82%	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	0.84%	0.75%	0.09%	↑
5-year Treasury	1.24%	1.17%	0.07%	↑
10-year Treasury	1.63%	1.58%	0.05%	↑
Swaps vs. 3M LIBOR				
2-year	1.12%	1.05%	0.07%	↑
5-year	1.30%	1.23%	0.07%	↑
10-year	1.54%	1.49%	0.05%	↑

Fedspeak & Economic News:

- Fed Chair Janet Yellen's presentation at the annual Jackson Hole symposium on Friday was the highlight of last week. One of her comments seared into the minds of market participants: "I believe that the case for an increase in the federal funds rate has strengthened in recent months." Her remark was confusing because the dot plot released in June implied two hikes before year end but investors thought she implied only one during her speech. Vice Chairman Stanley Fischer followed up and clarified by saying her comments did not suggest ruling out two hikes. He also advised market participants to keep a close eye on the August employment report, which will be released this Friday. The employment report is one of the most important economic releases we see during the month, but it can also be incredibly volatile and difficult to forecast. Usually, such a candid remark is not pinned to a high frequency release that has a proclivity for the occasional irregularity.
- The market quickly responded to Friday's dictum, with US Treasury yields moving higher in the belly by as many as 8 basis points. The federal funds market responded as well, increasing the odds of a September hike from 32 to 42 percent, the largest uptick in a month. The probability of a hike in December also rose, moving from 51 to 65 percent over the course of the week. Judging by the reaction from equity and bond markets, investors are increasingly comfortable with another rate hike this year.
- Jobs growth during the last two months has averaged 274,000, making it the largest two-month average this year and placing it the fifth highest in two years (the top spot averaged +288,000 with the October 2015 report). This year's average growth is 186,000, dragged down by the largely unexplained and anemic result of only 24,000 in May, with the rolling 12-month average just shy of 204,000. The August jobs report could be the single most important one of the year given the Fed's focus on the labor market. Despite seasonal adjustments, however, August has been the poorest month of the year for as-first-reported jobs numbers, averaging just 90,000 since 2010. A remarkable aberration similar to the print four months ago would have the potential to derail the recent hawkish tone taken by the fed, and market participants are wary. Nonetheless, Bloomberg's survey puts the estimate for Friday's release at +180,000, very close to this year's average.

Contributors to GDP



Source: Bloomberg

Revised 2Q16 GDP growth reported last week was in line with expectations at 1.1 percent. However the increasingly outsized contribution of personal consumption, compared to other declining or weak components gave pause to investors. Corporate profits fell by 1.2 percent after increasing by 3.4 percent in the first quarter, and inventories rose by 0.3% in July for the first time since December. Overall, early readings for 3Q16 are headed in the right direction. The NY Fed's GDP Nowcast currently pegs growth at 2.8 percent for the third quarter.

The Week Ahead

- The US economic calendar is loaded this week with plenty of top tier releases, including the **BLS Employment Report** for August (Friday)
- We will hear **Fedspeak** from Federal Reserve Bank presidents Eric Rosengren (Boston), Neel Kashkari (Minneapolis), Loretta Mester (Cleveland) and Jeffrey Lacker (Richmond) this week.

Date	Indicator	For	Forecast	Last
30-Aug	Consumer Confidence Index	Aug	97.0	97.3
31-Aug	ADP Employment Change	Aug	175k	179k
1-Sep	ISM Manufacturing	Aug	52.0	52.6
1-Sep	Markit US Manufacturing PMI	Aug F	52.1	52.1
2-Sep	Change in Nonfarm Payrolls	Aug	180k	255k
2-Sep	Durable Goods Orders	Jul F	4.4%	4.4%
2-Sep	Unemployment Rate	Aug	4.8%	4.9%
2-Sep	Factory Orders	Jul	2.0%	(1.5%)

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