Interest Rate Risk Management Weekly Update

June 13, 2016

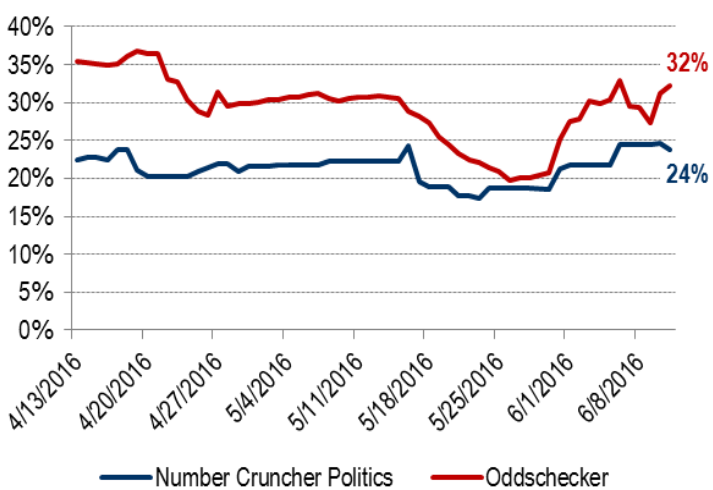
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.45%	0.46%	(0.01%)
3-Month LIBOR	0.66%	0.68%	(0.02%)
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	0.73%	0.77%	(0.04%)
5-year Treasury	1.17%	1.23%	(0.06%)
10-year Treasury	1.64%	1.70%	(0.06%)
Swaps vs. 3M LIBOR			
2-year	0.92%	0.97%	(0.05%)
5-year	1.19%	1.25%	(0.06%)
10-year	1.57%	1.62%	(0.05%)

Fedspeak & Economic News:

- In the last few weeks, global safe-haven assets have continued to appreciate, pushing the yield on the 10yr US Treasury to its lowest level of the year. Government bonds in Europe have also moved higher as 10yr UK and German bond yields touched new lows. The rancor surrounding the UK's EU referendum appears to be behind it all as we get closer and closer to voting day on June 23rd.
- The most important planned event of the week will be the June FOMC meeting. While a hike is largely unexpected at this meeting (current market pricing suggests a whopping 0.0 percent chance), the summary of economic projections and statement released following the meeting will be meticulously dissected. Market participants also hope to gain some clarity on the committee's interpretation of the weak May jobs report and will look to any guidance from the "dots" to steer their view on the chances of a hike at either the July or September meetings; markets suggest a 20-25 percent chance and 45-50 percent chance, respectively. The thinking goes that should the Fed leave July wide open for a hike, December will be another opportunity to act on a second rate hike for the year (September would be off the table since it would be too soon since the last hike and November would also be unlikely due to its close proximity to the presidential election). If the chances for July diminish considerably, that would likely leave only one rate hike left in either September or December. The "dots" could be telling in the number of FOMC members that anticipate one or two hikes this year. Recall that the last release of the "dots" suggested 16 members counting two or more hikes for 2016 and only one anticipating a single hike.
- In Europe, ECB President Mario Draghi increased pressure on governments to implement structural changes in their nations to improve economic prospects, rather than rely on the central bank for continued stimulus. At the moment, however, Draghi only has his words to use to kick start government action and with that still faces an uphill battle as voters on the right and left are increasingly dissatisfied with reforms. On Greece, Eurozone Finance Ministers meet again this week with the hope of completing the bailout review. The goal is to re-instate the waiver on Greek government bonds, which would allow the nation to participate in the ECB's regular refinancing operations.

Elevated Risks Surrounding UK Referendum



The potential for the UK to leave the EU on June 23 will be the main driver behind price action for the next ten days. Several polls suggest that those wanting to leave have moved ahead of those wanting to stay; however, the UK bookmakers' implied odds are shown to the left and clearly suggest that the remain camp is favored. The referendum is sparking an increase in volatility in the sterling market: Last week through Tuesday, speculators piled into short sterling positions by the most in five years while short-dated implied sterling volatility is soaring; the 2-week implied volatility closed at 15.22 on Thursday and 31.63 on Friday. [1] The risk-off sentiment has sparked a rally in government bonds, namely U.S. Treasuries.

The Week Ahead

- The **Federal Open Market Committee** will probably keep its benchmark lending rate unchanged at the conclusion of its two-day meeting on Wednesday. The meeting will be followed by a press conference hosted by Fed Chair Janet Yellen.
- **US retail sales** will be released on Tuesday; market participants expect the figure to have advanced for a second month.
- The **Bank of England's** Monetary Policy Committee is expected to keep its policy par for course when it concludes its meeting on Thursday.

Date	Indicator	For	Forecast	Last
14-Jun	Retail Sales Advance MoM	May	0.3%	1.3%
15-Jun	FOMC Rate Decision	Jun 15	0.50%	0.50%
15-Jun	Industrial Production MoM	May	-0.20%	0.70%
15-Jun	PPI Final Demand MoM	May	0.30%	0.20%
15-Jun	Empire Manufacturing	Jun	-4.00	-9.02
16-Jun	CPI MoM	May	0.3%	0.4%
17-Jun	Housing Starts	May	1150k	1172k

Source: Bloomberg [1] The 2-week British Pound Sterling / USD at-the-money implied volatility via Bloomberg

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