

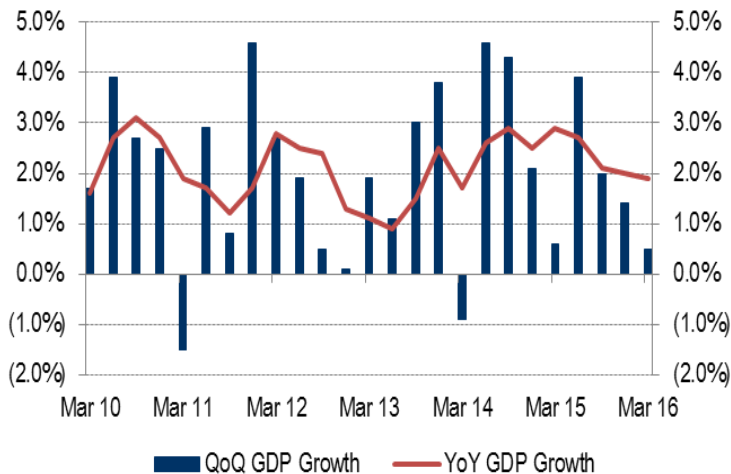
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.44%	0.44%	0.00% ○
3-Month LIBOR	0.64%	0.64%	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	0.78%	0.82%	(0.04%) ↓
5-year Treasury	1.30%	1.36%	(0.06%) ↓
10-year Treasury	1.83%	1.89%	(0.06%) ↓
Swaps vs. 3M LIBOR			
2-year	0.97%	1.00%	(0.03%) ↓
5-year	1.32%	1.36%	(0.04%) ↓
10-year	1.78%	1.80%	(0.02%) ↓

Fedspeak & Economic News:

- Central banks once again gripped the attention of market participants. The Federal Reserve and Bank of Japan echoed the tone set by the European Central Bank last week by remaining in wait-and-see mode.
- In the United States, the Federal Reserve acted largely in line with market expectations, with a few caveats. As predicted, the federal funds rate was left unchanged; however, certain pieces of the statement were interpreted to have a dovish lean. The outlook on the domestic economy was downgraded slightly, citing some softness in business investments and exports, though it was noted that the housing sector and labor market do continue to show strength. The initial release of GDP for the first quarter left more to be desired as it printed a dismal 0.5 percent quarter-over-quarter. The global economy did, however, turn more positive in the eyes of the Fed as the line "global economic and financial developments continue to pose risks", was changed to "closely monitored" as fears of a significant global slowdown and hard landing from the Chinese economy have abated. Kansas City Fed President Esther George was the lone dissenter in the vote, arguing for a rate hike. Nonetheless, the door remains open for a hike in June, and important economic releases this week will be closely monitored by investors for any clues on the June FOMC meeting.
- The Bank of Japan made a large splash in international markets due to its recent inaction. Markets were anticipating further easing or even additional cuts to the benchmark rate, but instead received nothing as policy makers await additional feedback from previously announced easing measures. The news sent markets sharply lower and the Nikkei plummeted nearly 4 percent in the trading session, putting its year-to-date drop at almost 12 percent. Conversely, the yen continued its march higher, reaching a 17-month high versus the dollar, another worrying sign to Japan's policy makers who fear further appreciation.
- Following a visit by President Obama, and repeated warnings on the perils of a 'Brexit' from the likes of the IMF, the Bank of England, and Her Majesty's Treasury, fears about the outcome of the June 23rd referendum have ebbed and odds that Britain leaves the European Union appear to have dissipated. Nonetheless, the BoE has developed contingency plans should sentiment change, preparing for major currency outflows.

Another Weak Start to the Year for the US Economy



The US economy grew at just a 0.5% annualized rate during the first quarter. Weak first quarter growth has been a recurring trend since the Great Recession, but each year's cause is different. For example, last year, port shutdowns weighed on growth. This year, slower growth seems to be tied to a weaker global economy, with reduced exports and weakened oil and gas prices, which have lead to a pullback in energy exploration and production. If history tells us anything, we may see a rebound in the second quarter, but it is unlikely that cutbacks in the energy sector will recover by next quarter. The Fed took this into account when it decided to keep policy steady at the FOMC meeting.

The Week Ahead

- We will see the release of the **April labor report** this Friday at 8:30 EDT; consensus suggests that the US probably added about 200,000 jobs in April and the jobless rate held at 5%.
- We will hear **Fedspeak** from a handful of individuals, including Cleveland's Loretta Mester, Minneapolis' Neel Kashkari, Atlanta's Dennis Lockhart, St. Louis' Bullard.

Date	Indicator	For	Forecast	Last
2-May	ISM Manufacturing	Apr	51.4	51.8
2-May	Markit US Manufacturing PMI	Apr F	50.8	50.8
4-May	Durable Goods Orders	Mar F	0.8%	0.8%
4-May	Factory Orders	Mar	0.6%	(1.7%)
4-May	Trade Balance	Mar	-\$41.1b	-\$47.1b
4-May	ADP Employment Change	Apr	195k	200k
6-May	Change in Nonfarm Payrolls	Apr	200k	215k
6-May	Unemployment Rate	Apr	5.0%	5.0%

Sources: Bloomberg



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