Interest Rate Risk Management Weekly Update

April 11, 2016

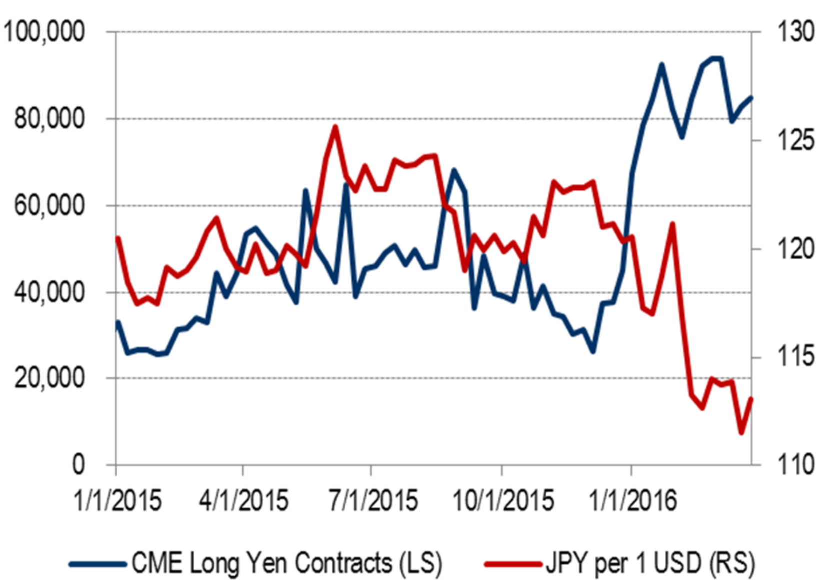
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.43%	0.44%	(0.01%)
3-Month LIBOR	0.63%	0.63%	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	0.70%	0.72%	(0.02%)
5-year Treasury	1.15%	1.22%	(0.07%)
10-year Treasury	1.72%	1.77%	(0.05%)
Swaps vs. 3M LIBOR			
2-year	0.90%	0.92%	(0.02%)
5-year	1.20%	1.25%	(0.05%)
10-year	1.65%	1.70%	(0.05%)

Fedspeak & Economic News:

- US Treasury yields declined as global risk tolerance fell, with European stocks selling off and bank credit spreads widening as political discourse in Europe weighed on sentiment. Heading farther east, the Japanese yen strengthened during the week, also highlighting the risk-off sentiment; investors doubt whether Japan's central bank will intervene anytime soon, especially after Japanese leaders promised not to engage in currency wars at recent summits. The 10-year Treasury yield traded within a 7-basis-point range, starting the week at the high of 1.76%, touching a low of 1.69% on Thursday and rebounding to 1.72% on Friday.
- On Wednesday, the Fed released its March FOMC meeting minutes, which confirmed market participants' concerns about global economic headwinds. From the minutes: "Many participants expressed a view that the global economic and financial situation still posed appreciable downside risks to the domestic economic outlook." FOMC participants also have concerns about the Fed's ability to navigate a potential slowdown since short-term rates remain close to the zero-bound; in other words, they prefer to use conventional methods to counteract a slowing in the economy (e.g., lower the federal funds target range) and don't want to raise rates too soon if they don't have to. From the minutes: "the FOMC continued to have little room to ease monetary policy through conventional means if economic activity or inflation turned out to be materially weaker than anticipated, but could raise rates quickly if the economy appeared to be overheating or if inflation was to increase significantly more rapidly than anticipated." The minutes also provided some color as to why the "dot plot" was revised lower: To achieve their economic objectives in the current market environment, a shallower interest rate path than projected at the December meeting seemed more appropriate. The federal funds market implies a zero-percent chance of a Fed hike at the April 26-27 meeting and a ~18% likelihood at the June 14-15 meeting.
- The risk flares were bright in Europe as potential for a UK exit became more plausible, despite the vote being more than two months away. Recent polls suggest that the "leave" votes have been catching up with the "remain" votes. The jitters surrounding the upcoming referendum led to a decent widening in European government bond spreads, particularly Italian and Spanish credit. The material weakening of credit worthiness across the pond will likely serve as a lid to US Treasury yields for the next couple months.

Speculators Build Large Positions in the Yen



Japanese portfolio managers continued their selling of the yen vis-à-vis the dollar through the end of March. They are trading in their stock and yen to buy massive amounts of foreign bonds. However, the yen has surged recently due to speculators in the futures market having amassed a near-record long yen position (the largest in over 20 years). Interestingly, Prime Minister Shinzo Abe downplayed the possibility of intervention. It is likely nothing will happen without Japanese officials consulting their G7 partners first. For the time being it looks as if the yen will weigh on the economy unfavorably via corporate earnings and import prices.

The Week Ahead

- US **Retail Sales** will be released at 8:30 EDT on Wednesday.
- We will see a handful of **Fedspeak** this week, including speeches from San Francisco president Williams (Tue), Richmond president Lacker (Tue) , Atlanta president Lockhart (Thu), Federal Reserve Board Governor Jerome Powell (Thu), and Chicago president Evans (Fri).
- The **Bank of England** will conclude its meeting on Thursday and release its latest interest rate decision.
- **China** will release its 1Q2016 GDP estimate, along with industrial output, retail sales, and fixed asset investment.
- The Fed will release its **Beige Book** at 14:00 EDT on Wednesday.

Date	Indicator	For	Forecast	Last
13-Apr	Retail Sales Advance MoM	Mar	0.1%	(0.1%)
13-Apr	PPI Final Demand MoM	Mar	0.3%	-0.2%
14-Apr	CPI MoM	Mar	0.2%	(0.2%)
15-Apr	U. of Mich. Sentiment	Apr P	92.0	91.0
15-Apr	Industrial Production MoM	Mar	(0.1%)	(0.5%)
15-Apr	Empire Manufacturing	Apr	2.00	0.62

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