

Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.46%	0.46%	0.00% ○
3-Month LIBOR	0.68%	0.67%	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	0.77%	0.91%	(0.14%) ↓
5-year Treasury	1.23%	1.39%	(0.16%) ↓
10-year Treasury	1.70%	1.85%	(0.15%) ↓

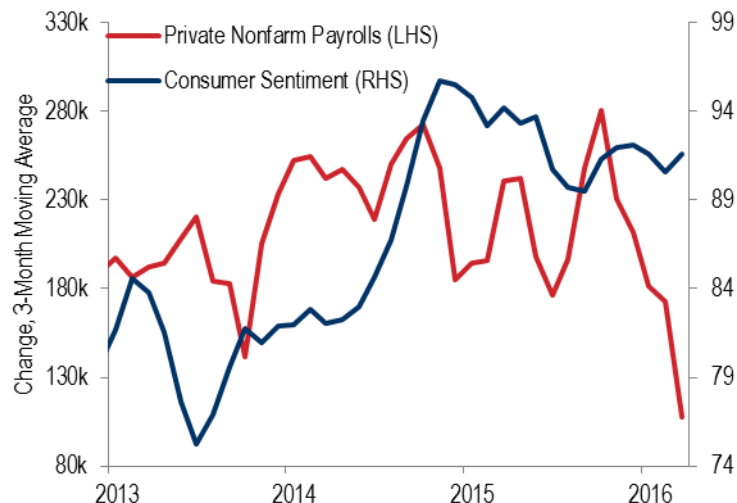
Swaps vs. 3M LIBOR

2-year	0.97%	1.11%	(0.14%) ↓
5-year	1.25%	1.39%	(0.14%) ↓
10-year	1.62%	1.76%	(0.14%) ↓

Fedspeak & Economic News:

- US Treasury yields and swap rates declined by 14-16 basis points last week in response to a very weak payrolls report release on Friday. The disappointing release greatly reduces the likelihood of a Fed rate hike in June. The market had been implying ~22% and ~55% chances for a hike at the Fed's June and July meetings before the release, respectively, but implied 4% and 27% following.
- Nonfarm payrolls added 38,000 jobs in May while the previous two months' gains saw a downward net revision of 59,000. Adding back the 35,000 Verizon employees that were on strike during the month still leaves us with the softest print since December 2013. The weakness covered a swathe of industries, including declines in manufacturing, construction, mining, and information services, partially offset by modest advances in health care, retail, financial services, and professional and business services. The unemployment rate ticked lower to 4.7%, a new post-recession low, as a result of the massive 458,000 decline in the labor force. The household survey was equally disappointing, with just a 26,000 job advance after the 316,000 drop in April.
- The rough patch of growth we trekked through in the first quarter is likely to blame for the recent softening in the labor market. Despite the chance that the report could be an aberration, it will likely be enough to keep the Fed sidelined at its June 14-15 policy meeting, especially with the United Kingdom's upcoming vote on whether to remain in the European Union on June 23. Although the May labor report was disappointing and may have squashed any likelihood of a June hike, employment growth is not necessarily indicative of economic growth. Both the Atlanta and NY Federal Reserves updated their GDP trackers on Friday, and they are nearly identical: Atlanta's forecast is now at 2.5% and NY's at 2.4% annually. Their measures suggest that even if May was a bit disappointing, the economy is still on track to grow at a healthy rate.
- We have seen disappointments in the labor market before: only 84,000 jobs were added in March 2015, 45,000 in December 2013, and 75,000 in April 2012, to name a few. Those poor releases were not indicative of a slowing labor market: In two of the cases listed above, payrolls printed above 200,000 jobs in the following month and growth kept at a robust pace thereafter. While there is no doubt this payroll report was weak, the market placed a low likelihood on a June rate hike anyway.

Yellen to Weigh in on Labor Report



Source: Bloomberg, BLS, U. Michigan

While many were disappointed with the May jobs report, market participants will ultimately look to Fed Chair Janet Yellen's parsing through of the numbers to determine policy in the near term. Her June 6 address to the World Affairs Council, the last fed event before the Fed's quiet period leading up to June's FOMC meeting, comes not a moment too soon. Strong consumer confidence, a 4.7 percent unemployment rate, and rising wage growth suggest things are not as glum as it seems. Nonetheless, markets are prepared for a dovish stance from the Fed chair.

The Week Ahead

- Fed Chair Janet Yellen will address the **World Affairs Council** on Monday
- US presidential primaries and caucuses** will be held in California, Montana, New Jersey, New Mexico, North Dakota (Democrats only), and South Dakota on Tuesday
- ECB President Mario Draghi will open up the **Brussels Economic Forum** on Thursday
- U.S. consumer sentiment**, this week's top tier economic release, will be published on Friday

Date	Indicator	For	Forecast	Last
10-Jun	U. of Mich. Sentiment	Jun P	94.0	94.7
9-Jun	Wholesale Inventories MoM	Apr	0.1%	0.1%

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Cleveland, OH

David Bowen	Mary Coe	Srdjan Demonjic	Dusko Djukic	Sam Donzelli	Frank Kuriakuz
216-689-3925	216-689-4606	216-689-3922	216-689-4224	216-689-3635	216-689-4071

Seattle, WA

Greg Dawli	Wil Spink
206-689-2971	206-689-2972

Documentation

Ramona Berce	Linda Maraldo	Marybeth Simon
413-567-6758	216-689-0516	216-689-0897