Interest Rate Risk Management Weekly Update

February 1, 2016

Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.43%	0.43%	0.00%
3-Month LIBOR	0.61%	0.62%	(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	0.78%	0.87%	(0.09%)
5-year Treasury	1.33%	1.48%	(0.15%)
10-year Treasury	1.92%	2.05%	(0.13%)
Swaps vs. 3M LIBOR			
2-year	0.89%	0.99%	(0.10%)
5-year	1.34%	1.47%	(0.13%)
10-year	1.85%	1.97%	(0.12%)

Fedspeak & Economic News:

- The FOMC concluded its two-day meeting on Wednesday with the release of a statement (no press conference). Generally speaking, the committee kept its message relatively consistent. Officials see slack in the labor market dissipating and believe that the economic climate will warrant the gradual introduction of additional hikes, despite downgrading their assessment of economic growth. However, given recent market developments (e.g., China), investors wanted to see something a little more dovish.
- The committee continues to see the decline in oil as having only a transitory impact on inflation while saying the decline in import prices will dissipate; in layman's terms, the Fed is arguing that the effects of the U.S. dollar's strength are also transitory. One could make an inference from the language that if current disinflationary trends in the global economy continue, the Fed would take a pass on a rate hike in March. The FOMC is playing this one close to the chest; the committee probably does not want to rush to conclusions and possibly spook the market, especially after hiking its benchmark rate less than two months ago.
- On the other hand, the market cannot hide its thoughts quite as well as the Fed. The market is pricing a small likelihood of a hike in March; the federal funds contract has tagged about a 15-percent chance to the event, which is down from the 50-percent apex we saw at the start of the year. However, we have a little over six weeks of data releases between now and the conclusion of the committee's next meeting, March 16, 2016, for the market to shift its stance (in addition to the statement, the FOMC will also include updated projections and "dot plot".) It is just too early to draw any conclusions, but recent market movement has definitely caught the Fed's eye. It is also important to consider that the January meeting was the first to involve the newly rotated members of the 2016 regional voting class (FOMC voters rotate every year, besides the governors, with the exception of the New York Fed, who is a permanent voting member.) On average, the incoming class is more hawkish than the previous, so if the hawks (those who are concerned with higher inflation rates versus the doves who are a little more comfortable with them) are growing concerned, it is important to take note.

A Surprise Rate Cut by the BoJ

Sources: Bloomberg

Japan's central bank surprised market participants last week by announcing a rate cut. It has been a little over three years since Japanese Prime Minister Shinzo Abe unveiled his highly touted plan, "Abenomics", which has been designed to use yen depreciation to increase inflation expectations and equity prices; the idea was that the combination would give the country's prime minister and legislature time to enact structural reforms (the "third arrow"). The yen lost ~2.4% of its value last week, which was the biggest weekly decline since the BoJ's surprise expansion of its QE program in October 2014. The move highlights a theme mentioned in previous distributions: the divergence between the Fed and other major central banks. Lower interest rates abroad should keep the US dollar strong, since yields here at home are attractive, relatively speaking.

The Week Ahead

- February's nonfarm payrolls will be released on Friday at 8:30 a.m.
- We will also see a plethora of other important economic data, including the ADP employment figure, a final look at December 2015 durable goods, and personal income and spending metrics for December 2015 as well.

Date	Indicator	For	Forecast	Last
1-Feb	ISM Manufacturing	Jan	48.4	48.2
1-Feb	Markit US Manufacturing PMI	Jan F	52.7	52.7
1-Feb	Personal Income	Dec	0.2%	0.3%
1-Feb	Personal Spending	Dec	0.1%	0.3%
3-Feb	ADP Employment Change	Jan	190k	257k
4-Feb	Durable Goods Orders	Dec F	-	(5.1%)
4-Feb	Factory Orders	Dec	(2.6%)	(0.2%)
5-Feb	Change in Nonfarm Payrolls	Jan	190k	292k
5-Feb	Unemployment Rate	Jan	5.0%	5.0%
5-Feb	Trade Balance	Dec	-$43.00b	-$42.37b

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