

Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.43%	0.43%	0.00% ○
3-Month LIBOR	0.62%	0.62%	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	0.71%	0.72%	(0.01%) ↓
5-year Treasury	1.21%	1.24%	(0.03%) ↓
10-year Treasury	1.75%	1.84%	(0.09%) ↓

Swaps vs. 3M LIBOR

2-year	0.84%	0.87%	(0.03%) ↓
5-year	1.20%	1.27%	(0.07%) ↓
10-year	1.65%	1.80%	(0.15%) ↓

Fedspeak & Economic News:

- It would have been challenging not to notice that volatility and financial instability plagued markets last week, but what drove the wild fluctuations? Undoubtedly, familiar themes that have persisted since August took much of the blame, such as concern over growth rates in China and Europe and the cratering of oil prices, but a disconnect emerged. While macroeconomic factors had some effect, reactions to swift changes in asset prices appeared sentiment driven, hitting the financial and energy sectors hardest. The possibility of inducing a negative feedback loop is a legitimate concern as investors may begin holding off on investment and hiring for as long as it takes the anxiety to pass, and significant market reactions will likely continue based on any surprise in economic data.
- In her semi-annual congressional testimony this week, Federal Reserve Chair Janet Yellen did her part to remind her audience of the reasons for optimism here at home. The state of the labor market strengthened her case as it was noted the economy added 2.7 million and 3.0 million jobs in 2015 and 2014, respectively. Both years marked the best jobs growth since 1999 when 3.2 million jobs were created. American consumers appear to have overlooked the instability that started the year off and flexed their spending muscles in January. Strong retail numbers of +0.2% MoM beat consensus estimates of +0.1%, despite the drag from low energy costs. The worry of nose-diving crude prices in the US surely impacts domestic producers; however, the US is still a net importer of crude oil (approximately 6MMBbls/day), and thus the savings are a net positive to the economy as a whole. US consumers are the ultimate beneficiaries, though the proof is widely diffused across a variety of sectors and thus difficult to pinpoint. Chair Yellen echoed that in her testimony, and acknowledged that further-than-expected upside to US growth is possible due to the decline in energy prices. The head of the most consequential central bank in the world is cautiously optimistic that growth will continue in the near- and medium-term, but the possibilities of a protracted bout of financial volatility risks derailing the progress. March has not been ruled out of consideration for the next rate hike, but it may be delayed to June if the Fed takes a wait and see approach.

Daily 2-Year Treasury Movements



The yield curve continued its flattening bias, with the difference between the 2- and 10-year swaps just 81 bps. Although the front-end of the yield curve appears to have come down just a little bit over the course of the week, the daily movements in Treasury yields and swap rates did a good job capturing the large fluctuations experienced in other asset classes. Until market participants feel a greater sense of certainty over the direction of China's growth and the stability of Europe's economy as a whole, choppiness in Treasury yields and swap rates should continue.

Sources: Bloomberg



Cleveland, OH

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

Seattle, WA

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

Documentation

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

The Week Ahead

- U.S. Fed Releases Minutes** from Jan. 26-27 FOMC meeting on Wednesday, though considerable market volatility likely renders the information stale
- Fedspeak** comes in heavy this week as Philly Fed's Harker, Minneapolis Fed's Kashkari, Boston Fed's Rosengren, St. Louis Fed's Bullard, San Fran Fed's Williams, and Cleveland Fed's Mester are all scheduled to speak
- Chinese Markets** reopen after the week long holiday

Date	Indicator	For	Forecast	Last
16-Feb	Empire Manufacturing	Feb	(10.5)	(19.4)
17-Feb	Housing Starts	Jan	1175k	1149k
17-Feb	Industrial Production MoM	Jan	0.4%	(0.4%)
17-Feb	Capacity Utilization	Jan	76.7%	76.5%
18-Feb	Leading Index	Jan	(0.2%)	(0.2%)
19-Feb	CPI MoM	Jan	(0.1%)	(0.1%)

Disclaimer

This communication is generated by the derivatives sales & trading unit of KeyBank and conveyed as commentary on economic, political and/or market conditions or, in some cases, may be considered to be a general solicitation for entering into derivatives transactions, as contemplated under Commodity Futures Trading Commission ("CFTC") Regulation 23.605, and is not a "research report" as defined therein. This communication is not to be construed as a recommendation or opinion with respect to any derivative or trading strategy involving a derivative for purposes of CFTC Part 23 Regulations. This communication does not take into account the investment objectives, financial conditions, or needs of individual parties and is not intended to serve as a basis for entering into a derivatives transaction or to suggest, in any manner, that a party should enter into a particular derivatives transaction or trading strategy involving a derivative. Parties should consult their own advisors for opinions and advice on whether to enter into any derivatives transaction or trading strategy involving a derivative. The information contained herein has been obtained from sources deemed to be reliable but it is not represented to be accurate, complete or objective. In providing this information, neither KeyBank nor any affiliate of KeyBank is acting as your agent, broker, advisor, or fiduciary, or is offering any tax, accounting, or legal advice regarding these instruments or transactions. KeyBank may have current positions or strategies that may be inconsistent with any views expressed herein.



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