

# Interest Rate Risk Management Weekly Update

April 21, 2014

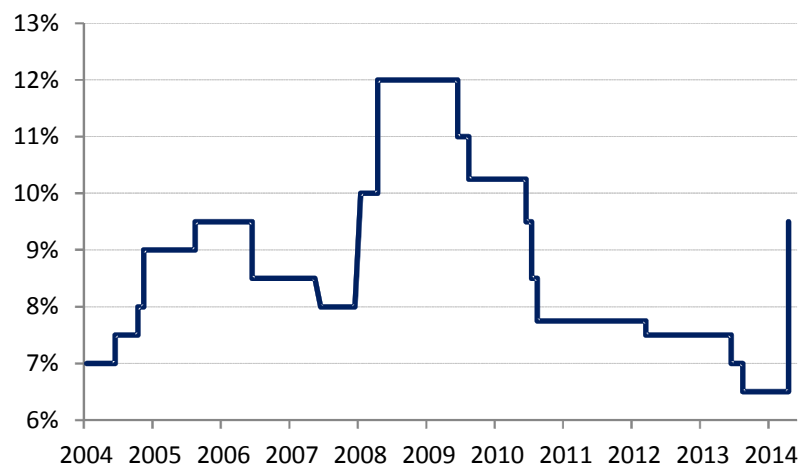
## Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.15%	0.15%	0.00% ○
3-Month LIBOR	0.23%	0.23%	0.00% ○
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
<b>US Treasury Yields</b>			
2-year Treasury	0.40%	0.36%	0.04% ↑
5-year Treasury	1.74%	1.58%	0.16% ↑
10-year Treasury	2.72%	2.63%	0.09% ↑
<b>Swaps vs. 3M LIBOR</b>			
2-year	0.60%	0.54%	0.06% ↑
5-year	1.89%	1.74%	0.15% ↑
10-year	2.90%	2.79%	0.11% ↑

## Fed Speak & Economic News:

- Interest rates finished higher across the curve last week compared with the previous week's final levels. The lion's share of the move came on Thursday as markets prepared to close early for the holiday-shortened week. On the economic data front, initial jobless claims posted a better than expected 304,000; remaining at levels reminiscent of 2007. Additionally, the Philadelphia Fed business outlook surprised with a surge from 9.0 to 16.6 this month, reversing some of the doubts sown by the disappointing Empire Manufacturing release on Tuesday. Equities also got into the act – both the S&P 500 and Dow closed up on the week backed by improving earnings announcements and forward guidance. With positive economic results as a backdrop to Thursday's bounce, the improving news on the Ukrainian crisis boosted momentum. The agreement between the U.S., Russia, Ukraine and EU fostered hope that a diplomatic solution can be reached.
- The 0.7 percent increase in industrial production during March helped put a spring in the market's step, especially when coupled with an upward revision for February to 1.2 percent growth, from 0.6 percent. In fact, the report is leading some economists to believe that first quarter GDP, released at the end of the month, could be better than feared and second quarter could feasibly reach near four percent if production fuels the services sector.
- Fed Chair Yellen took to the stage at the Economic Club of New York on Wednesday to speak about "Monetary Policy and the Economic Recovery." She went to great lengths to emphasize that the Fed may keep its target rate low "for some time" to counterbalance her now famous remarks after the FOMC meeting in March. However, the market shrugged this off as Dr. Yellen also stated that she and her colleagues "generally believe that a significant part of the recent [economic] softness was weather-related." This view was echoed by the Fed's April survey of economic activity, commonly known as the Beige Book, which was released just after her remarks.
- During this week, markets will be looking for the leading index to lead us out of the weather slump, for the industrial production results to be reflected in the U.S. manufacturing PMI and for consumer confidence to mirror retail sales.

## Ukrainian Central Bank Discount Rate



While markets await any signal on the timing of the Fed's next 25 basis point hike, the National Bank of Ukraine increased its discount rate a full three percent on Tuesday to 9.5 percent. The Bank is targeting inflation, Ukraine's unstable currency (which was still pegged to the U.S. dollar just over a year ago) and attempting to discourage depositors from fleeing. The move also included the Bank's overnight loan rate which all but doubled from 7.5 percent to 14.5 percent.

## U.S. Economic Data

- Retail sales jumped to 1.1% in March, beating expectations of 0.9%, while February's figure was revised up to 0.7% from 0.3%
- Empire manufacturing for April disappointed at 1.29 against hopes of an increase to 8.00 from 5.61 last month
- CPI remained subdued, increasing 0.2% from February to March
- There were 946,000 housing starts in March, fewer than the expected 970,000

Date	Indicator	For	Forecast	Last
21-Apr	Leading Index	Mar	0.70%	0.50%
22-Apr	Existing Home Sales	Mar	4.55M	4.60M
23-Apr	MBA Mortgage Applications	18-Apr	-	4.30%
23-Apr	US Manufacturing PMI	Apr P	56.0	55.5
23-Apr	New Home Sales	Mar	450K	440K
24-Apr	Durable Goods Orders	Mar	2.00%	2.20%
24-Apr	Initial Jobless Claims	19-Apr	315K	304K
25-Apr	Univ. of Michigan Confidence	Apr F	83.0	82.6

Source: Bloomberg, Financial Times



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