

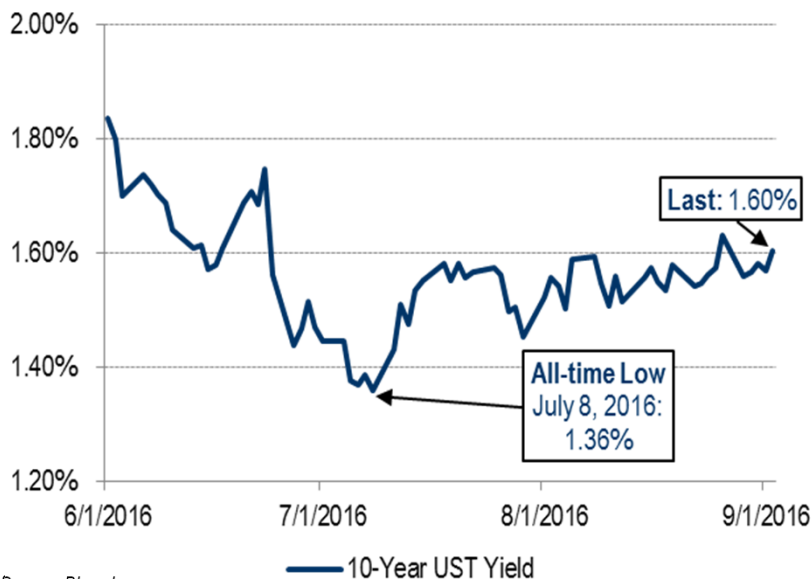
## Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.53%	0.52%	0.01% ↑
3-Month LIBOR	0.84%	0.83%	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% ○
<b>US Treasury Yields</b>			
2-year Treasury	0.79%	0.84%	(0.05%) ↓
5-year Treasury	1.19%	1.24%	(0.05%) ↓
10-year Treasury	1.60%	1.63%	(0.03%) ↓
<b>Swaps vs. 3M LIBOR</b>			
2-year	1.09%	1.12%	(0.03%) ↓
5-year	1.26%	1.30%	(0.04%) ↓
10-year	1.51%	1.54%	(0.03%) ↓

## Fedspeak & Economic News:

- Nonfarm payrolls added 151,000 jobs in August, below expectations of 180,000. The two-month revision netted out to 1,000 fewer jobs than previously indicated. A growth spurt in service sector, goods sector and government hirings contributed the majority to the headline figure but was offset by declines in manufacturing and construction. Private sector payrolls and household survey jobs both fared poorly and the unemployment remained at 4.9 percent – thanks to the participation rate holding its ground at 62.8 percent – as did the more comprehensive U-6 measure, staying at 9.7 percent. Average hourly earnings rose by 0.1 percent leading to a revised 2.7 percent in July, making it the weakest growth pace since March.
- On the whole, the labor report was robust and satisfying, with a few grim details, but it will unlikely be enough to force the Fed's hand to take another step in the direction of normalization when it concludes its two-day meeting September 21. This is especially true when you couple the aforementioned with a sub-50 factory ISM reading and sub-17 million August auto sales figure. However, to be fair, there have been some encouraging signs: Consumer spending and confidence have been robust; there are indications via economic releases and forecasts suggesting GDP growth will exceed three percent in the third quarter; and there has been a further improvement in housing data. Although a rate hike this month looks like it would be a long shot, a move at the December meeting seems very likely at this point in time, which is reminiscent of how monetary policy played out last year.
- The market's initial reaction to the labor report sparked a rally in US Treasuries, but it was short lived – it may have been attributable to short covering – since the market quickly sold off thereafter. The probability of a hike on September 21 as indicated by the federal funds futures market slid from 34 to 30 percent following the labor report. Currently, market participants have tagged the November and December meetings with 36 and 60 percent likelihoods, respectively; December is a more likely candidate than November since it will be followed up with a press release and economic projections. (Every other meeting is followed up with the Staff Economic Projections and "dot plot".)

## The 10-Year UST Finishes Summer on a Somber Note



Summer started off with a geopolitical flash bang, the June 23 Brexit, only to sail into the end of summer quietly. The 10-year UST yield sank to an all-time low of 1.36 percent after market participants flocked to safe havens following the UK referendum and currently sits 24 basis points higher, remaining range bound during the last few weeks of trading. The two-year UST yield has also climbed more than 20 basis points higher since it hit a YTD low on the same day as the 10-year hit its all-time low. UST yields have marched higher in light of improving economic data and a Fed considering when it will be best to hike again.

## The Week Ahead

- There will be far fewer economic data releases this week compared to last
- The **European Central Bank's Governing Council** will meet on Thursday to review its interest rates and stimulus programs
- Japan** will release its updated **gross domestic product** data for the second quarter on Thursday
- Boston Federal Reserve Bank President Eric Rosengren** will be the keynote speaker at the South Shore Chamber of Commerce on Friday
- Euro-area finance ministers and central bank governors** will meet to discuss Italian banks, Brexit and the budget outlook

Date	Indicator	For	Forecast	Last
6-Sep	ISM Non-Manf. Composite	Aug	55.0	55.5
7-Sep	Fed Releases Beige Book			
9-Sep	Wholesale Inventories MoM	Jul F	0.0%	0.0%

Source: Bloomberg



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