# Interest Rate Risk Management Weekly Update

February 29, 2016

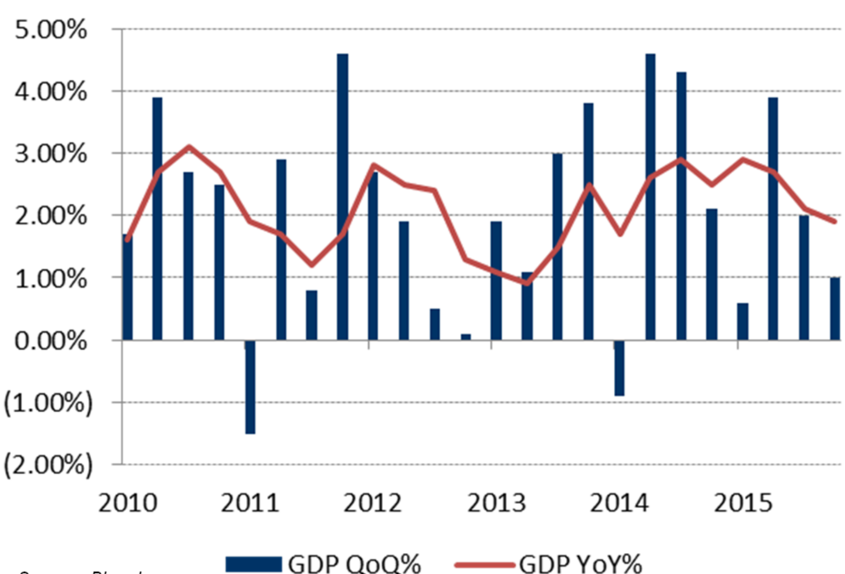
## Current Rate Environment

| Short Term Rates | Friday | Prior Week | Change | |
|---|---|---|---|---|
| 1-Month LIBOR | 0.44% | 0.43% | 0.01% | ↑ |
| 3-Month LIBOR | 0.64% | 0.62% | 0.02% | ↑ |
| 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 | 0.80% | 0.71% | 0.09% | ↑ |
| 5-year Treasury | 1.24% | 1.21% | 0.03% | ↑ |
| 10-year Treasury | 1.76% | 1.75% | 0.01% | ↑ |
| **Swaps vs. 3M LIBOR** | | | | |
| 2-year | 0.88% | 0.84% | 0.04% | ↑ |
| 5-year | 1.20% | 1.20% | 0.00% | ○ |
| 10-year | 1.64% | 1.65% | (0.01% ) | ↓ |

### *Fedspeak & Economic News:*

- US Treasury yields moved lower for most of the week, despite risk assets settling down a bit, including crude oil and the S&P 500; however, much of the drift lower was reversed on Friday after a number of US economic releases hit the wires. Fourth-quarter GDP, the most prominent release, was revised higher as inventories built up far more than many had expected. The move higher in Treasury yields persisted all day on Friday, with most of the increase concentrated in the front-end and belly of the curve. Despite the selloff in government bonds, investor sentiment, while reversing course slightly, remains cautious.
- Economic fundamentals and market sentiment are at odds with one another right now, with the latter suggesting the risk of recession has increased. It is unlikely that we can continue down this road, one eventually has to give. In the past, we have relied on the Fed's ability to calm market anxiety, so with the recent bout, expectations for further action are rising (e.g., chatter about negative rates). But central banks typically wait for a clearer picture before unveiling additional easing via whichever mechanism they see fit. If they act prematurely, they run the risk of the market overreacting and making things worse. For this reason, we will probably see only modest steps from central banks to boost activity and investor sentiment (e.g., the ECB may introduce another cut while the Fed is likely to postpone hiking rates further). This implies that for the time being, financial markets will depend on the picture painted by the drip feed of economic data. Markets may remain volatile as the data take time to filter through.
- Fedspeak has become increasingly dovish, although most individuals at the Fed believe the market has overreacted. San Francisco Fed President Williams believes it would be prudent to "take things slowly" on rates. He mentioned that the Fed has a "very long list" of risks that it is tracking, including slowing in Chinese growth and commodity demand, but he also added that he sees no sign of a looming recession. Fed President Lockhart mentioned that low energy prices and concerns about China have added a new complexity to the outlook of the US economy. In all, Fedspeak as a whole has shied away from discussing additional rate hikes and anything remotely hawkish.

## Fourth-Quarter GDP Revised Upwards




Sources: Bloomberg

Real GDP growth in the fourth quarter of 2015 was revised higher, surprisingly, from +0.7% to +1.0% annualized; however, much of the upside surprise was the result of inventory builds, while many had expected a downward adjustment. It means that estimates for economic growth in the first quarter of 2016 will most likely be pulled downward. Personal consumption was nudged down to +2.0% from +2.2% while fixed investment remained largely unchanged.

## The Week Ahead

- The **Super Tuesday** primaries and caucuses will be held this week. Half of the delegates needed to win the Republican nomination are at stake and about a third for the Democratic nomination.
- The **February labor report** will be released on Friday at 8:30 a.m. Expectations call for nonfarm payrolls to add 195,000 jobs and for the unemployment rate to hold steady.

| Date | Indicator | For | Forecast | Last |
|---|---|---|---|---|
| 1-Mar | ISM Manufacturing | Feb | 48.5 | 48.2 |
| 1-Mar | Markit US Manufacturing PMI | Feb F | 51.2 | 51.0 |
| 2-Mar | ADP Employment Change | Feb | 184k | 205k |
| 3-Mar | Durable Goods Orders | Jan F | - | 4.9% |
| 3-Mar | Factory Orders | Jan F | 2.1% | (2.9% ) |
| 4-Mar | Change in Nonfarm Payrolls | Feb | 190k | 151k |
| 4-Mar | Unemployment Rate | Feb | 4.9% | 4.9% |
| 4-Mar | Trade Balance | Jan | -$43.50b | -$43.36b |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