

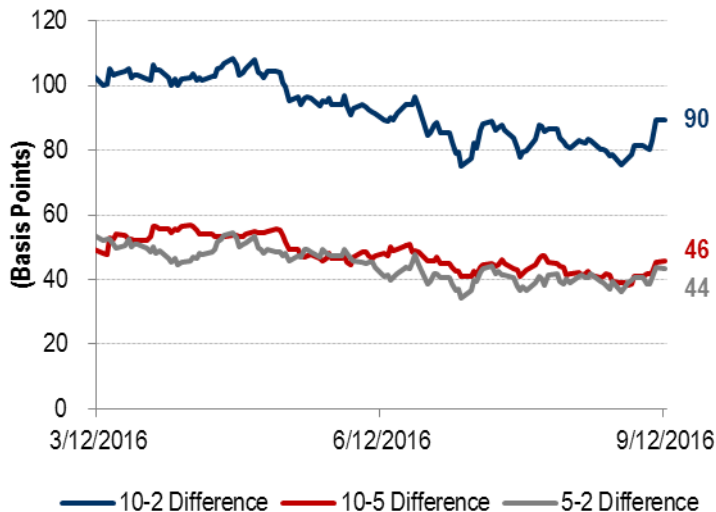
## Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.53%	0.53%	0.00% ○
3-Month LIBOR	0.85%	0.84%	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	0.78%	0.79%	(0.01%) ↓
5-year Treasury	1.22%	1.19%	0.03% ↑
10-year Treasury	1.68%	1.60%	0.08% ↑
<b>Swaps vs. 3M LIBOR</b>			
2-year	1.10%	1.09%	0.01% ↑
5-year	1.29%	1.26%	0.03% ↑
10-year	1.57%	1.51%	0.06% ↑

## Fedspeak & Economic News:

- The tune has changed. For the first time in quite a while, the top central banks' views on monetary policy are beginning to converge. In the U.S. and Europe, the low-rate, easy-money orthodoxy may be shifting to a historically normal view, reinvigorating market activity after the late summer lull.
- Last week, European Central Bank President Mario Draghi disappointed investors by not only leaving current measures at a standstill and not extending the current easing package, but also by keeping dovish rhetoric to a minimum. The concern from investors is that the central bank's willingness to provide additional stimulus has stalled, aligning more closely with the Federal Reserve's posturing of a tighter monetary policy. Some analysts suggest consensus among top policy makers was reached at the recent Jackson Hole Summit and the days of quantitative easing may be numbered. In response, equities and bonds across the U.S. and Europe have fallen as the bears exert downward pressure on prices. As bond prices decline, yields for those bonds rise. The 10-year German Bund yield finally escaped negative yields for the first time since July. In the U.K. the 10-year Gilt moved with global yields, also reaching the highest levels since July. With the ECB on hold and staff projections and key reports not expected until December, economic data releases will hold greater importance to market participants.
- Today is the last day before Fed officials enter the blackout period ahead of the September 20-21 FOMC meeting. Investors are on edge as noted dove and close colleague of Chair Yellen, Fed Governor Lael Brainard, was announced to be speaking at the last moment. A shift in her mindset could be a telling sign of how the FOMC may vote in September since she has generally been a vocal proponent of keeping rates low. It is unlikely she will announce anything dramatic, but her tone may suggest moving closer to that of Yellen's, building the case for a rate hike. Fed President Lockhart of Atlanta and Fed President Kashkari of Minneapolis will also speak today.
- Economic data will be important in the lead-up to next week's meeting, with the more important releases coming in the latter half of this week and into next.

## Rising Yields Overseas Cause the US Treasury Curve to Steepen



According to theory, a steeper curve reflects expectations of higher rates in the future and/or market participants requiring extra yield for the risk of locking in their funds for a longer period of time (e.g., risk of inflation eroding return). The most likely explanation for the flattening seen over the past six months is market participants abroad channeling their funds into US Treasuries, compressing the term premia, as they sought investment safety and a yield pick-up respective to their local government bond yields. As economic conditions improve and government yields overseas move higher, we could see the steepness of the US Treasury curve continue to increase, as it has recently.

## The Week Ahead

- **European Commission President Jean-Claude Juncker** will give a "State of Union" speech to the European Parliament at 3:00 EDT on **Wednesday**
- The **Bank of England** will announce a rate decision on **Thursday** at 7:00 EDT. It is expected to keep policy par for the course, maintaining its key rate at a record low 0.25 percent and asset-purchase target at \$580 billion
- **US retail sales** will be released on **Thursday** at 8:30 EDT. Expectations call for a minor contraction compared to a month earlier
- The **US consumer price index** will be released at 8:30 EDT **Friday**. Market participants expect a slight expansion compared to a month earlier

Date	Indicator	For	Forecast	Last
15-Sep	Retail Sales Advance MoM	Aug	(0.1%)	0.0%
15-Sep	Industrial Production MoM	Aug	(0.2%)	0.7%
15-Sep	PPI Final Demand MoM	Aug	0.1%	(0.4%)
15-Sep	Empire Manufacturing	Sep	(1.00)	(4.21)
16-Sep	CPI MoM	Aug	0.1%	0.0%
16-Sep	U. of Mich. Sentiment	Sep P	90.6	89.8

Source: Bloomberg



Cleveland, OH  
 David Bowen 216-689-3925  
 Mary Coe 216-689-4606  
 Srdjan Demonjic 216-689-3922  
 Sam Donzelli 216-689-3635

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

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#### Cleveland, OH

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David Bowen	Mary Coe	Srdjan Demonjic	Sam Donzelli
216-689-3925	216-689-4606	216-689-3922	216-689-3635

#### Seattle, WA

---

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

#### Documentation

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