

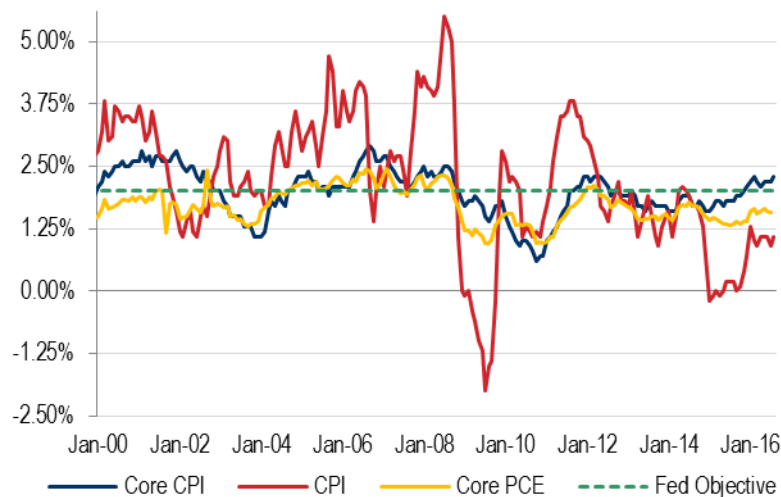
Current Rate Environment

Short Term Rates	Friday	Prior Week	Today's Change
1-Month LIBOR	0.53%	0.53%	0.00% ○
3-Month LIBOR	0.86%	0.85%	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% ○
US Treasury Yields			
2-year Treasury	0.76%	0.78%	(0.02%) ↓
5-year Treasury	1.20%	1.22%	(0.02%) ↓
10-year Treasury	1.69%	1.68%	0.01% ↑
Swaps vs. 3M LIBOR			
2-year	1.07%	1.10%	(0.03%) ↓
5-year	1.27%	1.29%	(0.02%) ↓
10-year	1.57%	1.57%	0.00% ○

Fedspeak & Economic News:

- Two heavyweights in the Central Bank arena hold crucial meetings this week: the Federal Reserve and the Bank of Japan. Markets have taken their stance on what the outcomes will be, but a variety of factors could easily surprise investors, extending the late summer volatility into the early days of fall. The recent doubts cast upon the effectiveness of easy monetary policy expressed by central bankers themselves during the Jackson Hole meeting last month could be the reason investors are struggling to forecast future policy decisions.
- The FOMC concludes its September meeting on Wednesday with its usual updated statement, fresh projections, an updated dot-plot, and a press conference with Fed Chair Janet Yellen. At the moment, fed funds futures put the probability of a rate hike at less than 20 percent as market participants largely anticipate the Fed will remain on hold. While the Fed has generally avoided surprises, there is reason to believe the committee may act anyway. FOMC Members who have previously been cautious about moving too soon now appear much more supportive of normalization. By some estimates there could be an even split among voting members. Notably, Boston Fed President Eric Rosengren, a prominent dove, has expressed concern of easy-money policies negatively impacting markets and appears ready to push for tightening. Perhaps more interesting was Chair Yellen's speech at Jackson Hole that did not cite risks and instead saw a "strengthened case" for a rate hike. Should the Fed choose not to increase rates this week, and with November likely off the table due to the proximity of the presidential election, members supportive of taking action may press for more hawkish language in describing December's meeting.
- The Bank of Japan's policy meeting is the other major risk event of the week. A much promised "comprehensive assessment" from Governor Kuroda will be released and it is uncertain how future decisions on monetary policy will be affected by it. Additional stimulus is also expected to be announced, but there are numerous unknowns about what form it may take. The benchmark rate could be cut further into negative territory, the amount of asset purchases could increase, or the type of assets acquired could change. The BoJ could choose to do nothing at all and instead wait until the October meeting to announce any changes. Anything that keeps the market guessing will result in continued volatility.

U.S. Inflation Edges Higher



Source: BLS, BEA, Bloomberg

For the Fed officials holding out on supporting a rate hike, inflation pressures, or lack thereof, are pointed to as the primary reason. Providing a modest amount of comfort to policy makers, core inflation for August moved higher than expected. While the beat to estimates was small, 2.3 percent versus expectations of 2.2 percent, it is welcome nonetheless. One reading is not nearly enough to steer the decision of a rate hike in one direction or another, but the trend is positive should economic growth continue and energy prices remain stable.

The Week Ahead

- The **Federal Reserve** concludes its policy meeting on Wednesday with a news conference from Chair Janet Yellen. Investors anticipate no changes to the current policy
- The **Bank of Japan** releases its monetary policy statement on Wednesday. Additional stimulus is expected
- The calendar for **economic data** releases globally is light this week. The highlights will come from manufacturing readings in the Eurozone

Date	Indicator	For	Forecast	Last
20-Sep	Housing Starts	Sep	60.0	60.0
20-Sep	Building Permits	Aug	1165k	1152k
22-Sep	Chicago Fed Nat Activity Index	Aug	0.15	0.27
22-Sep	Existing Home Sales	Sep	5.45m	5.39m
22-Sep	Leading Index	Aug	0.0%	0.4%
23-Sep	Markit US Manufacturing PMI	Sep P	52.0	52.0

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