# Interest Rate Risk Management Weekly Update

April 20, 2015

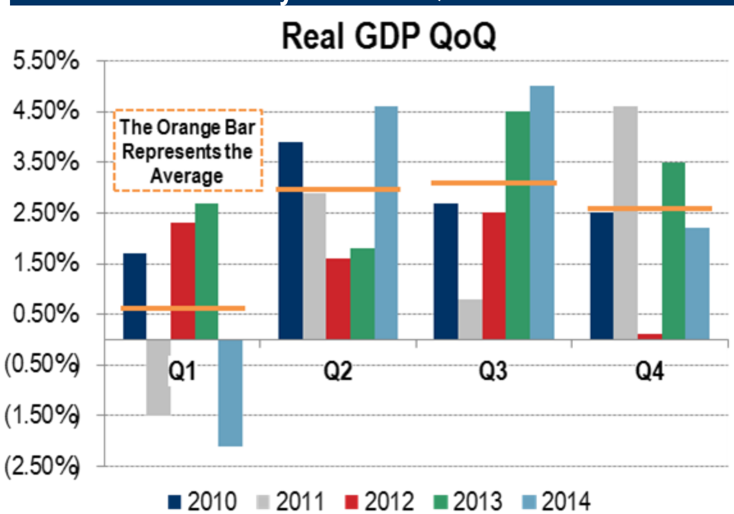
## Current Rate Environment

| Short Term Rates | Friday | Prior Week | Change |
|---|---|---|---|
| 1-Month LIBOR | 0.18% | 0.18% | 0.00% |
| 3-Month LIBOR | 0.28% | 0.28% | 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% |
| **US Treasury Yields** | | | |
| 2-year Treasury | 0.51% | 0.56% | (0.05% ) |
| 5-year Treasury | 1.31% | 1.40% | (0.09% ) |
| 10-year Treasury | 1.87% | 1.95% | (0.08% ) |
| **Swaps vs. 3M LIBOR** | | | |
| 2-year | 0.82% | 0.87% | (0.05% ) |
| 5-year | 1.52% | 1.60% | (0.08% ) |
| 10-year | 2.01% | 2.09% | (0.08% ) |

## *Fed Speak & Economic News:*

- In a news conference Wednesday, European Central Bank President Mario Draghi took time to address the current state of the central bank's quantitative easing measures. Thus far, the program has produced stronger-than-expected economic results. Broadly speaking, industrial and manufacturing data have rebounded, echoing higher business confidence, and IMF growth forecasts for this year have been revised higher from 1.2 percent to 1.5 percent. The devalued euro, which has resulted from QE, continues to aid European exporters. The backdrop of weaker global demand is a top threat to current progress, however, Draghi is aware of the delicate nature of the recovery. Only a month into the asset purchases, he has had to quell investors' early concerns of any upcoming tapering or asset scarcity. In addition, he reiterated the importance of sticking to the plan until its expected maturity in September 2016.
- Elsewhere in Europe, Greece grabbed headlines once again. As negotiations stalled, top European and US officials pressed Greece for an agreement. The largest element working against Greece is time, as any proposal from the Greek Finance Ministry would require a period of review that would take several weeks by the country's creditors. The summer months bring due a number of large debt repayments and without an agreement, Greece will surely default on its debt. While Greek Prime Minister Alexis Tsipras is confident a deal can be reached by the end of the month, others within his office are skeptical. The inverted nature of the yield curve for Greek debt, where the 10-year bond was at 12.49 percent on Friday while the two-year was at 26.28 percent, suggests investors see a high risk of default in the near term. Comments from US Treasury Secretary Jack Lew and German Finance Minister Wolfgang Schäuble refocused attention on Greece and sent US and European equity markets lower by between 1.5 and 2.5 percent on Friday.
- A combination of a stabilization in oil prices during the first quarter of this year and a modestly upward sloping futures curve suggests that we might see higher prices by the end of 2017, which should lead to the materialization of higher inflation in both the US and UK. Recent economic data also indicate firming inflation, with upside potential in the medium term. Stronger currencies in both nations have weighed on import prices, which, when combined with lackluster US wage growth, mutes any take-off inflation concerns. The Fed will be watching inflation data and expectations closely as it calibrates the timing of any rate increases.

## Why Has First Quarter US GDP Growth Been Weak?




In a recent interview, referring to US economic growth, Fed Vice Chairman Stanley Fischer said, "The first quarter was poor. That seems to be a new seasonal pattern. It's been that way for about four of the last five years." First quarter growth for this year was no different: Bloomberg's survey estimates that the US economy grew 1 percent QoQ during the first quarter of 2015. What is the underlying cause? It is hard to say. Jonathan H. Wright at John Hopkins University suggests that seasonal adjustments may be to blame [1], while most economists believe that inclement weather has weighed on economic growth. Mr. Fischer mentioned that he expects a recovery, but that it is too early to say.

## The Week Ahead

- Economic data and Fedspeak will be sparse this week, with no policy speeches scheduled due to the self-imposed blackout period ahead of the April 28-29 FOMC meeting next week.
- Key economic releases will be jobless claims (Thursday) and March durable goods orders (Friday).
- Greece's debt negotiations will continue this week, with a Eurogroup meeting of finance ministers scheduled on Friday.
- The U.S. and European Union will hold their ninth round of negotiations on the proposed Transatlantic Trade and Investment Partnership

| Date | Indicator | For | Forecast | Last |
|---|---|---|---|---|
| 22-Apr | MBA Mortgage Applications | 17-Apr | - | (2.3% ) |
| 22-Apr | Existing Home Sales | Mar | 5.03M | 4.88M |
| 23-Apr | Initial Jobless Claims | 18-Apr | 289K | 294K |
| 23-Apr | New Home Sales | Mar | 515K | 539K |
| 23-Apr | Markit US Manufacturing PMI | Apr P | 55.7 | 55.7 |
| 24-Apr | Durable Goods Orders | Mar | 0.6% | (1.4% ) |

*Sources: Bloomberg; Federal Reserve Bank of Atlanta; [1] http://www.brookings.edu/~/media/Projects/BPEA/Fall-2013/2013b_wright_unseasonal_seasonals.pdf?la=en*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