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OREGON STATE TREASURY

Local Government

News Report

JULY 2013

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HOLIDAYS AND CLOSURES

No Holidays or Closures remaining in July

OUTAGE UPDATES & BUSINESS INTERRUPTION PREPAREDNESS

As you might be aware, the Oregon State Treasury (Treasury) has recently had two separate incidents resulting in a temporary loss of Treasury network functionality for several cash management applications, including those related to the Local Government Investment Pool (LGIP) and the Voice Response System. Treasury staff were also unable to access e-mail or network drives during these periods. In both cases, Treasury Information Services staff were able to identify and correct the outages relatively quickly, and return cash management applications to service with full network functionality largely within each days' operating timelines.

While Treasury staff worked with LGIP participants to address any related issues on an ad hoc basis, these short-lived but very real business interruptions should be a reminder to us all about the importance of good business continuity planning. When we think about business continuity, many of us focus on longer term interruption in service that relates to a full-scale disaster situation. It is important to remember, however, that even short term business interruption can create havoc with our movement of money. It is

important for LGIP participants to recognize that the LGIP is intended to be an investment vehicle, not a bank account. With that in mind, Treasury recommends that local governments have money available from sources other than the LGIP for at least 48 to 72 hours. If your organization has not already done so, it may be prudent to discuss short-term liquidity options with your governing body and your financial services providers.

INTEREST RATES

The average annualized yield for June was:

0.54 percent

The rate for June was as follows:
June 1st - 30th

0.54 percent

CASH MANAGEMENT: GROUNDWORK FOR PROCESS IMPROVEMENT CONTINUES

In early 2012, Treasury embarked on a comprehensive cash management business mapping ("Mapping") project. The "Mapping" project lays the groundwork to plan for and implement ongoing process and system improvements aimed at ensuring that we continue to support a range of cash management services that add value to our internal and external customers. Important to ongoing success is Treasury's ability to adapt cash management services to meet changing stakeholder needs, including: evolving customer, vendor, and other stakeholder business requirements; industry, technical, and regulatory changes; and customer requests for new cash management services. As we work to accomplish these goals, we must be vigilant in balancing innovation opportunities against risk awareness and resource capacity.

With the above in mind, the 2013 Legislative Assembly approved Treasury's budget request for position authority and funds related to this important program. The resources approved in the budget request are aimed at bolstering critical daily operational support needs, allowing for continuation of the business

"Mapping" project, supporting a more detailed business case development for process and system improvement projects, and allowing for development of a permanent process and system "renewal" program.

Business case development for specific process and system improvement projects will begin with Local Government Investment Pool systems and processes due to high risk of infrastructure failure. Business case development for Automated Clearing House (ACH) related infrastructure and activities will occur nearly concurrently because of the substantial anticipated overlap in underlying business requirements. Local governments will be important partners as we continue down this path. We look forward to your input and participation.

If you have any questions about the "Mapping" project or related efforts, please feel free to contact Angel Bringelson, Cash Management Business Analyst, or Cora Parker, Finance Division Director, at angel.bringelson@ost.state.or.us or cora.r.parker@ost.state.or.us, respectively.

JOB OPPORTUNITY

The Oregon State Treasury is currently recruiting for a Project Manager (Project Manager 3) for its Cash Management Infrastructure Renewal Program. This position is one of several Cash Management Program positions approved by the 2013 Legislative Assembly aimed at bolstering critical daily operational support needs, allowing for continuation of an ongoing business mapping project, supporting a more detailed business case development for process and system improvement projects, and allowing for development of a permanent process and system "renewal" program. The position will be responsible for managing the project initiation, planning, execution, control, and closure of several distinct but interrelated cash management infrastructure renewal projects. The position reports to the Finance Division Director and will work closely with the Cash Management Business Analyst. The recruitment announcement can be found by clicking [here](#).

CREDIT MARKET REVIEW

June was a difficult month for the bond markets as market participants continued to contemplate the potential tapering of Fed asset purchases. Yields rose and credit spreads widened as investors sold out of bonds and bond funds.

June payrolls surprised to the upside as the economy added 195k nonfarm jobs, more than the Bloomberg reported median economist expectation of 166k. The headline unemployment rate remained at 7.6 percent as the labor force participation rate ticked up for a second month in a row. The report revised May nonfarm payroll additions from 175k to 195k jobs while April was revised higher from 149k to 199k nonfarm jobs. The jobs report was widely seen as positive and further evidence the Fed may taper their bond buying later in 2013. The final print for first quarter GDP was released on June 26th. The reading showed an economy growing at an annualized rate of 1.8 percent, below the Bloomberg reported median economist expectation of 2.4 percent.

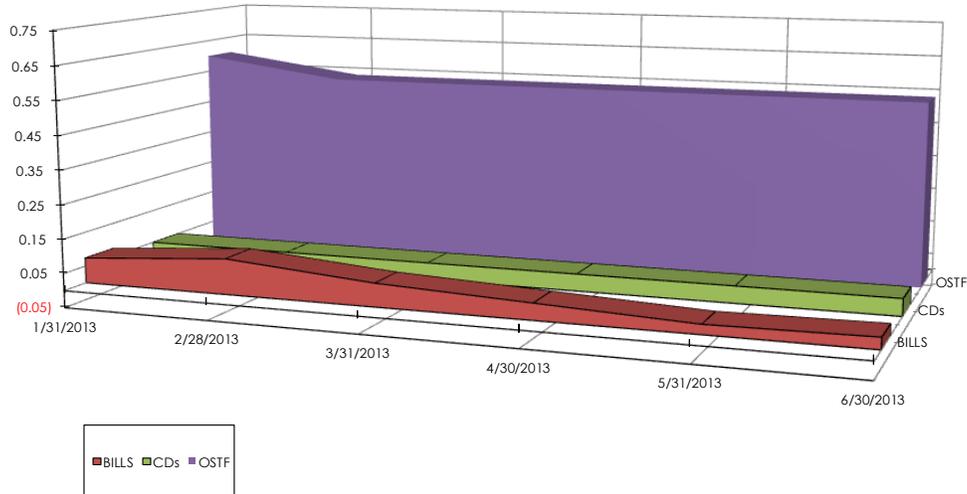
For the most part short rates skipped out on June's bond market selloff ending at low levels due to continued supply pressure and steady demand. Short duration and money market funds experienced inflows as investors sold out of longer dated bonds and bond funds. The exception being the 2 and 3 year Treasury rates which rose to end the month at 0.36 percent and 0.65 percent respectively on the back of continued QE taper speculation. Short corporate spreads widened in June as investors sold out of credit funds and ETF's. Inflation break-evens continued lower during the month as inflation, wage and manufacturing data continue to show softness.



MARKET DATE TABLE

	6/28/13	1 Month	3 Months	12 Months		6/28/13	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.04	0.02	0.04	0.04	Barclays 1-3 Year Corporate YTW*	1.22	0.96	0.95	1.51
30-Day Agency Nt Disc**	0.04	0.02	0.06	0.07	Barclays 1-3 Year Corporate OAS*	0.80	0.63	0.68	1.17
90-Day Agency Nt Disc**	0.06	0.05	0.09	0.12	Barclays 1-3 Year Corporate Modified Duration*	2.01	2.02	1.98	1.96
180-Day Agency Nt Disc**	0.10	0.08	0.11	0.16					
360-Day Agency Nt Disc**	0.15	0.13	0.16	0.19	JPM 1-3 Year Floating Rate Note Index Yield***	0.65	0.65	0.71	1.81
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	37.22	37.22	41.69	140.63
30-Day Treasury Bill**	0.00	0.03	0.03	0.06					
60-Day Treasury Bill**	0.02	0.02	0.05	0.06	7-Day Muni VRDN Yield**	0.06	0.12	0.12	0.18
90-Day Treasury Bill**	0.03	0.04	0.06	0.08					
6-Month Treasury Yield**	0.09	0.08	0.10	0.16	O/N GGC Repo Yield**	0.05	(0.05)	0.20	0.14
1-Year Treasury Yield**	0.15	0.12	0.12	0.20	O/N GGC Reverse Repo Yield**	0.09	0.00	0.33	0.24
2-Year Treasury Yield**	0.36	0.30	0.24	0.31					
3-Year Treasury Yield**	0.65	0.49	0.35	0.41	1-Day CP (A1/P1)**	0.12	0.13	0.15	0.20
					7-Day CP (A1/P1)**	0.13	0.13	0.16	0.22
1-Month LIBOR**	0.19	0.19	0.20	0.25	30-Day CP (A1/P1)**	0.16	0.16	0.18	0.29
3-Month LIBOR**	0.27	0.28	0.28	0.46					
6-Month LIBOR**	0.41	0.42	0.44	0.73	30-Day CD (A1/P1)**	0.17	0.17	0.18	0.21
12-Month LIBOR**	0.69	0.69	0.73	1.07	90-Day CD (A1/P1)**	0.23	0.22	0.23	0.39
					6-Month CD (A1/P1)**	0.31	0.32	0.34	0.76
US 1 Year Inflation Break-Even**	0.74	0.73	2.32	(0.20)	1-Year CD (A1/P1)**	0.59	0.61	0.68	1.05
US 2 Year Inflation Break-Even**	1.24	1.34	2.28	0.89					
US 3 Year Inflation Break-Even**	1.40	1.58	2.32	1.25	Sources: *Barclays, **Bloomberg, ***JP Morgan				

OREGON SHORT TERM FUND ANALYSIS AS OF 6-30-13



	1/31/2013	2/28/2013	3/31/2013	4/30/2013	5/31/2013	6/30/2013
LGIP AV DOLLARS INVESTED (MM)	6,250	6,192	6,108	5,995	6,036	5,279
STATE AGENCY AV DOLLARS INVESTED (MM)	6,351	6,222	6,037	6,435	6,955	6,914
TOTAL OSTF AV DOLLARS INVESTED (MM)	12,601	12,414	12,145	12,430	12,991	12,193
OST ANNUAL YIELD (ACT/ACT)	0.60	0.54	0.54	0.54	0.54	0.54
3-MO UST BILLS (BOND EQ YLD)	0.07	0.10	0.07	0.05	0.03	0.03
3-MO JUMBO CDS (ACT/360)	0.05	0.05	0.05	0.05	0.05	0.05

NOTE: The OST ANNUAL YIELD represents the average annualized yield paid to accountholders during the month. Since interest accrues to accounts on a daily basis and the rate paid changes during the month, this average rate is not the exact rate earned by each account.

3-MO UST BILLS yield is the yield for the Treasury Bill Issue maturing closest to 3 months from month end. 3-MO JUMBO CDS is the highest posted rate received by the Treasury from Oregon banks as of month end. Consequently, while the yield on UST Bills should normally be lower than CD rates, the fact that the quotes are up to a week different in time may result in an apparent reversal of this situation.

This material is available in alternative format and media upon request.

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