



Local Government

News Report

DECEMBER 2014

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CREDIT MARKET REVIEW

In November the markets grappled with above-trend U.S. growth, a strong jobs report, low levels of inflation, and a continuing decline in the price of oil. Strong growth and labor reports point toward a resilient economy and give the Fed room to seek rate hikes while continued low levels of inflation and commodity price declines indicate that the Fed is having trouble attaining its two percent inflation goal.

The second reading of third quarter GDP was released on November 24 and indicated that the economy grew at an

annualized rate of 3.9 percent, stronger than the initial reading of 3.5 percent. Measures of inflation continue to show low levels with the Core PCE coming in at an annualized rate of 1.4 percent while the CPI indicated a 1.7 percent annualized rate of inflation. Both measures of inflation bear monitoring as the continued bear market in oil prices makes its way into each series.

The November payroll report was released Friday December 5. The jobs report was by most accounts a strong report. The

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UPCOMING BANK HOLIDAY

Due to the Christmas Day holiday, the Oregon State Treasury, Federal Reserve, and Oregon banks will be closed Thursday, December 25. ACH transfers called-in prior to 1:00 p.m. on Wednesday, December 24, will settle at your bank on Friday, December 26. ACH transfers called-in between 1:00 p.m. Wednesday, December 24, and 1:00 p.m. Friday, December 26, will settle at your bank on Monday, December 29.

The Oregon State Treasury, Federal Reserve, and Oregon banks also will be closed Thursday, January 1, due to the New Year's Day holiday. ACH transfers called-in prior to 1:00 p.m. on Wednesday, December 31, will settle at your bank on Friday, January 2. ACH transfers called-in between 1:00 p.m. Wednesday, December 31, and 1:00 p.m. Friday, January 2, will settle at your bank on Monday, January 5.

INTEREST RATES

The average annualized yield for November was:
0.53 percent

The rates for November were as follows:

November 1–20
0.54 percent

November 21–30
0.50 percent



Gary Halvorson, Oregon State Archives

BANK HOLIDAY

Christmas Day
December 25
and
New Year's Day
January 1
(Oregon State Treasury
and Banks closed)

CREDIT MARKET REVIEW

(Continued from page 1)

headline jobs number was better than expected with the economy adding 321k nonfarm jobs, more than the Bloomberg-reported median economist expectation of 230k. The headline unemployment rate and the labor force participation rate remained unchanged at 5.8 percent and 62.8 percent respectively. The report revised October nonfarm payroll additions from 214k to 243k jobs while September was revised from 256k to 271k jobs. Average hourly earnings, a sign of wage inflation, rose 0.4 percent for the month. The above-expectation job gains and upward revisions to the prior months, combined with the above-trend wage gains, sent front-end U.S. Treasury yields higher. The Fed-sensitive two-year Treasury yield hit a three-year high at 0.66 percent, a sharp reversal from the October low of 0.28 percent a mere month and a half ago.

Money market rates continued to remain at very low levels throughout November. The front-end U.S. Treasury market ended at marginally lower rates while Repo rates moved higher as the Fed began experimenting with their Reverse Repo Program by moving the paid rate higher. Short-duration corporate spreads moved wider by two basis points, according to the Barclays corporate index (tracked below). With December now upon us, market participants will begin positioning for year-end. If recently enacted regulations impact the markets as much as at the last quarter-end, rates in January could be pushed to very low levels.



MARKET DATA TABLE

	11/30/2014	1 Month	3 Months	12 Months		11/30/2014	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.04	0.04	0.02	0.04	Barclays 1-3 Year Corporate YTW*	1.14	1.13	1.02	0.90
30-Day Agency Nt Disc**	0.05	0.04	0.04	0.05	Barclays 1-3 Year Corporate OAS*	0.60	0.58	0.48	0.57
90-Day Agency Nt Disc**	0.08	0.06	0.05	0.08	Barclays 1-3 Year Corporate Modified Duration*	1.94	1.95	1.93	1.95
180-Day Agency Nt Disc**	0.10	0.07	0.07	0.11					
360-Day Agency Nt Disc**	0.17	0.15	0.16	0.16	JPM 1-3 Year Floating Rate Note Index Yield***	0.60	0.60	0.56	0.65
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	38.03	38.03	34.04	39.14
30-Day Treasury Bill**	0.04	0.00	0.01	0.06					
60-Day Treasury Bill**	0.00	0.00	0.01	0.03	7-Day Muni VRDN Yield**	0.04	0.05	0.05	0.05
90-Day Treasury Bill**	0.02	0.01	0.02	0.06					
6-Month Treasury Yield**	0.07	0.05	0.05	0.10	O/N GGC Repo Yield**	0.19	0.28	0.08	0.11
1-Year Treasury Yield**	0.12	0.09	0.09	0.12					
2-Year Treasury Yield**	0.470	0.49	0.49	0.28	1-Day CP (A1/P1)**	0.15	0.19	0.12	0.11
3-Year Treasury Yield**	0.85	0.92	0.93	0.55	7-Day CP (A1/P1)**	0.12	0.18	0.15	0.11
					30-Day CP (A1/P1)**	0.13	0.16	0.15	0.13
1-Month LIBOR**	0.15	0.16	0.16	0.17					
3-Month LIBOR**	0.23	0.23	0.23	0.24	30-Day CD (A1/P1)**	0.16	0.15	0.13	0.14
6-Month LIBOR**	0.33	0.33	0.33	0.35	90-Day CD (A1/P1)**	0.21	0.19	0.17	0.20
12-Month LIBOR**	0.56	0.55	0.57	0.58	6-Month CD (A1/P1)**	0.26	0.26	0.25	0.27
					1-Year CD (A1/P1)**	0.42	0.44	0.43	0.47
US 1 Year Inflation Break-Even**	0.64	(0.78)	0.40	1.05					
US 2 Year Inflation Break-Even**	0.61	0.94	1.31	1.39					
US 3 Year Inflation Break-Even**	1.07	1.22	1.55	1.60	Sources: *Barclays, **Bloomberg, ***JP Morgan				

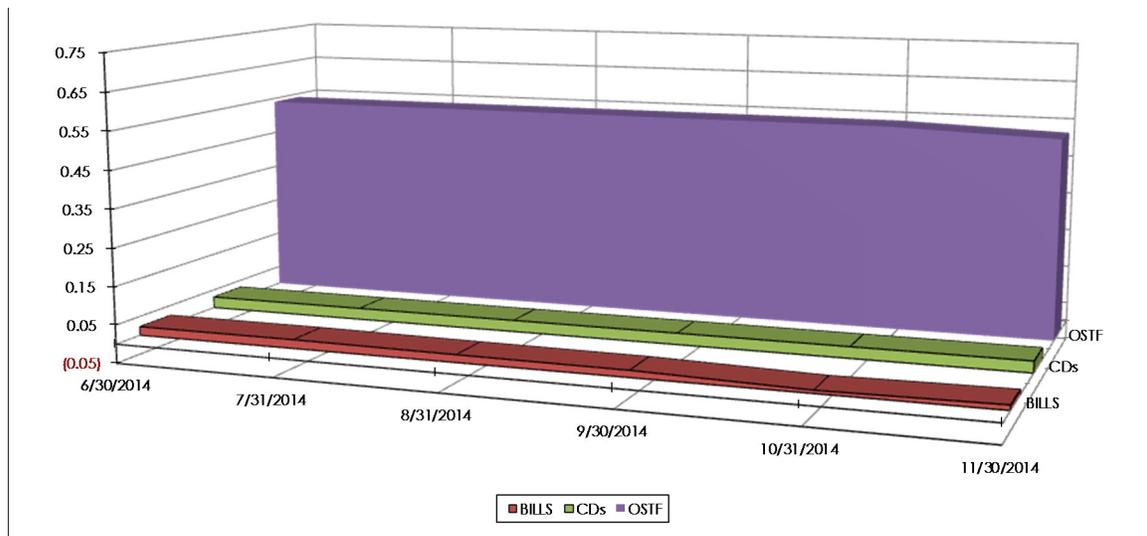
CMIRP CORNER

The Cash Management Improvement & Renewal Program (CMIRP) is a continuous improvement program focused on the renewal, replacement, and refinement of processes and technology supporting Treasury cash management services.

As the LGIP Business Systems Renewal project team nears issuing its recommendation for the solution that best meets Treasury's and its customers' needs at the end of December, Treasury is looking ahead at solution implementation. Part of that effort is hiring a quality assurance/quality control contractor to support the project. The contractor's work will focus on quality planning, quality assurance, quality control, and risk management to ensure that the project achieves its goals while meeting best practices. The contractor also will provide an independent viewpoint of the project—an important aid for management and legislative oversight.

If you have questions or comments about the LGIP Business Systems Renewal effort, please contact us at cmirp@ost.state.or.us.

OREGON SHORT TERM FUND ANALYSIS AS OF 11-30-14



	6/30/2014	7/31/2014	8/31/2014	9/30/2014	10/31/2014	11/30/2014
LGIP AV DOLLARS INVESTED (MM)	5,669	5,348	5,465	5,288	5,151	6,877
STATE AGENCY AV DOLLARS INVESTED (MM)	6,944	8,210	7,384	7,537	7,597	7,192
TOTAL OSTF AV DOLLARS INVESTED (MM)	12,607	13,557	12,849	12,825	12,748	14,069
OST ANNUAL YIELD (ACT/ACT)	0.54	0.54	0.54	0.54	0.54	0.53
3-MO UST BILLS (BOND EQ YLD)	0.02	0.02	0.02	0.02	0.01	0.01
3-MO JUMBO CDS (ACT/360)	0.03	0.03	0.03	0.03	0.03	0.03

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.

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