



Local Government

News Report

NOVEMBER 2014

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BANK HOLIDAY

Thanksgiving Day
November 27
(Oregon State Treasury
and
Banks closed)

CREDIT MARKET REVIEW

The first two weeks of October were a bumpy ride for stocks and bonds. Market participants grappled with several issues including geopolitical tensions, signs of slowing global growth, the end of the Fed's bond buying program, a stronger dollar, and a bear market in oil prices. While the U.S. economy appears to be on solid footing, it remains to be seen if, and for how long, it can remain decoupled from the struggling Eurozone and the slowing Chinese economy.

While we don't often mention Japan in this newsletter, the recent Bank of Japan central bank action deserves noting. Central banking took a new turn in October as Japan upped the ante by introducing fresh stimulus that caught markets by surprise. The Bank of Japan announced that it would seek to expand its

balance sheet by roughly 80 trillion yen (approximately \$730 billion) per year. While this alone was a large move relative to the size of the Japanese economy, the real news was that the bank will no longer confine itself to the government bond market but instead will begin buying common stock exchange traded funds (ETFs) and shares of real estate investment trusts (REITs). This action bears monitoring, as no one is sure what the impact will be.

The October payroll report was released Friday November 7. The headline jobs number was slightly weaker than expected with the economy adding 214k nonfarm jobs, less than the Bloomberg-reported median economist expectation of 235k.

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UPCOMING BANK HOLIDAY

Due to the Thanksgiving Day holiday, the Oregon State Treasury, Fed wire service, and Oregon banks will be closed Thursday, November 27. ACH transfers called-in prior to 1:00 p.m. on Wednesday, November 26, will settle at your bank on Friday, November 28. ACH transfers called-in between 1:00 p.m. Wednesday, November 26, and 1:00 p.m. Friday, November 28, will settle at your bank on Monday, December 1.

INTEREST RATES

The average annualized yield for October was:
0.54 percent

The rate for October was as follows:

October 1 - 31
0.54 percent

CREDIT MARKET REVIEW

(Continued from page 1)

The headline unemployment rate ticked down to 5.8 percent while the labor force participation rate nudged higher from 62.7 to 62.8 percent. The report revised September nonfarm payroll additions from 248k to 256k jobs while August was revised from 180k to 203k jobs. Average hourly earnings, a sign of wage inflation, rose 0.1 percent for the month. Average hourly earnings have risen 2.0 percent over the past 12 months. Notable were the 12k job additions to the construction sector as well as the 15k job additions to the manufacturing sector. While the overall jobs report was solid, wage growth remains slow and the underemployment rate remains somewhat elevated at 11.5 percent.

The data below does little to explain the market moves that occurred during October. October 15 proved to be a fascinating day as the two-year Treasury yield dropped to an intraday low of 0.28 percent before reversing course to end the month at 0.493 percent. Other points on the Treasury curve experienced similar volatility. Short-duration corporate spreads moved wider by four basis points according to the Barclays corporate index tracked below. With the quarter-end behind us, money markets rates moved marginally higher in October as demand for short-term government paper relaxed.



MARKET DATA TABLE

| | 10/31/2014 | 1 Month | 3 Months | 12 Months | | 10/31/2014 | 1 Month | 3 Months | 12 Months |
|----------------------------------|------------|---------|----------|-----------|--|------------|---------|----------|-----------|
| 7-Day Agency Discount Note** | 0.04 | 0.02 | 0.03 | 0.01 | Barclays 1-3 Year Corporate YTW* | 1.13 | 1.15 | 1.04 | 0.97 |
| 30-Day Agency Nt Disc** | 0.04 | 0.03 | 0.05 | 0.03 | Barclays 1-3 Year Corporate OAS* | 0.58 | 0.54 | 0.47 | 0.62 |
| 90-Day Agency Nt Disc** | 0.06 | 0.04 | 0.07 | 0.05 | Barclays 1-3 Year Corporate Modified Duration* | 1.95 | 2.01 | 1.95 | 1.97 |
| 180-Day Agency Nt Disc** | 0.07 | 0.05 | 0.09 | 0.07 | | | | | |
| 360-Day Agency Nt Disc** | 0.15 | 0.16 | 0.14 | 0.14 | JPM 1-3 Year Floating Rate Note Index Yield*** | 0.60 | 0.63 | 0.58 | 0.58 |
| | | | | | JPM 1-3 Year Floating Rate Note Index Discount Margin*** | 38.03 | 35.29 | 36.53 | 34.40 |
| 30-Day Treasury Bill** | 0.00 | 0.01 | 0.01 | 0.04 | 7-Day Muni VRDN Yield** | 0.05 | 0.03 | 0.06 | 0.08 |
| 60-Day Treasury Bill** | 0.00 | 0.00 | 0.01 | 0.04 | O/N GGC Repo Yield** | 0.28 | 0.06 | 0.15 | 0.12 |
| 90-Day Treasury Bill** | 0.01 | 0.01 | 0.02 | 0.04 | 1-Day CP (A1/P1)** | 0.19 | 0.14 | 0.12 | 0.10 |
| 6-Month Treasury Yield** | 0.05 | 0.04 | 0.05 | 0.08 | 7-Day CP (A1/P1)** | 0.18 | 0.14 | 0.13 | 0.12 |
| 1-Year Treasury Yield** | 0.09 | 0.09 | 0.11 | 0.09 | 30-Day CP (A1/P1)** | 0.16 | 0.15 | 0.15 | 0.15 |
| 2-Year Treasury Yield** | 0.493 | 0.52 | 0.53 | 0.32 | 30-Day CD (A1/P1)** | 0.15 | 0.17 | 0.14 | 0.16 |
| 3-Year Treasury Yield** | 0.92 | 0.97 | 0.99 | 0.58 | 90-Day CD (A1/P1)** | 0.19 | 0.19 | 0.18 | 0.21 |
| 1-Month LIBOR** | 0.16 | 0.15 | 0.16 | 0.17 | 6-Month CD (A1/P1)** | 0.26 | 0.27 | 0.25 | 0.25 |
| 3-Month LIBOR** | 0.23 | 0.23 | 0.24 | 0.24 | 1-Year CD (A1/P1)** | 0.44 | 0.51 | 0.44 | 0.46 |
| 6-Month LIBOR** | 0.33 | 0.32 | 0.33 | 0.35 | | | | | |
| 12-Month LIBOR** | 0.55 | 0.58 | 0.58 | 0.60 | | | | | |
| US 1 Year Inflation Break-Even** | (0.78) | (0.16) | 0.98 | 0.30 | | | | | |
| US 2 Year Inflation Break-Even** | 0.94 | 1.06 | 1.52 | 1.19 | | | | | |
| US 3 Year Inflation Break-Even** | 1.22 | 1.31 | 1.72 | 1.46 | | | | | |

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.

While there is not much new to report from an external perspective, much work continues internally on the LGIP Business Systems Renewal. Notably, the project team—business and technology subject-matter experts—continues to review and analyze product/service solutions that meet the requirements and goals of the Transform approach. The project team is on pace to recommend the solution that best meets Treasury’s and its customers’ needs by December 2014. Actual implementation is still anticipated to begin mid-2015, with ideal completion well before the end of 2015.

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

2015 HOLIDAY SCHEDULE

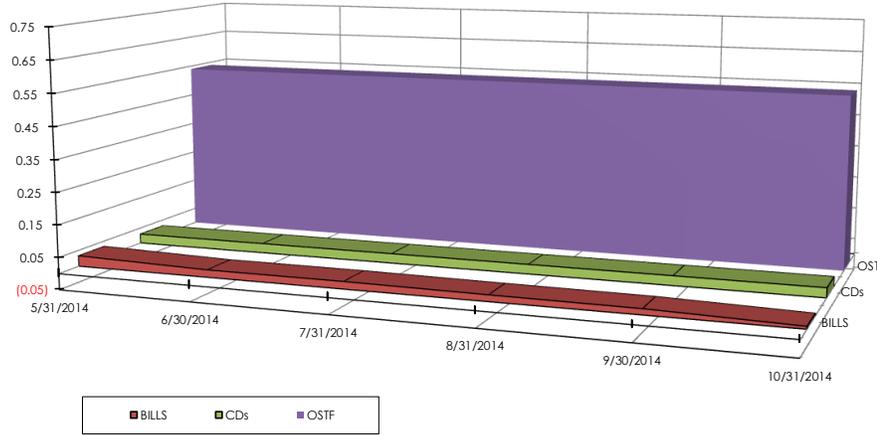
To help you in your investment planning, the following are holidays that will be observed by the Local Government Investment Pool during 2015.

| | | |
|---------------|-------------------|--|
| Thursday | January 1 | New Year’s Day |
| Monday | January 19 | Martin Luther King, Jr. Day |
| Monday | February 16 | Presidents Day |
| Monday | May 25 | Memorial Day |
| Friday | July 3 | Independence Day *Fed/banks open & State closed |
| Monday | September 7 | Labor Day |
| Monday | October 12 | Columbus Day *Fed/banks closed & State open |
| Wednesday | November 11 | Veterans Day |
| Thursday | November 26 | Thanksgiving Day |
| Friday | December 25 | Christmas Day |

ACH transactions called-in prior to 1:00 p.m. on the business day preceding a holiday will settle on the business day following the holiday. **There will be an exception to this rule on July 3, 2015, as both the Fed and Oregon banks are open while the Oregon State Treasury is closed. Transactions called-in prior to 1:00 p.m. on Thursday, July 2, will settle at your bank on Friday, July 3.**

ACH transactions called-in **between** 1:00 p.m. on the business day preceding a holiday and 1:00 p.m. on the business day following a holiday will settle at your bank the **second** business day following the holiday.

OREGON SHORT TERM FUND ANALYSIS AS OF 10-31-14



| | 5/31/2014 | 6/30/2014 | 7/31/2014 | 8/31/2014 | 9/30/2014 | 10/31/2014 |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|------------|
| LGIP AV DOLLARS INVESTED (MM) | 6,434 | 5,669 | 5,348 | 5,465 | 5,288 | 5,151 |
| STATE AGENCY AV DOLLARS INVESTED (MM) | 6,902 | 6,944 | 8,210 | 7,384 | 7,537 | 7,597 |
| TOTAL OSTF AV DOLLARS INVESTED (MM) | 13,330 | 12,607 | 13,557 | 12,849 | 12,825 | 12,748 |
| OST ANNUAL YIELD (ACT/ACT) | 0.54 | 0.54 | 0.54 | 0.54 | 0.54 | 0.54 |
| 3-MO UST BILLS (BOND EQ YLD) | 0.03 | 0.02 | 0.02 | 0.02 | 0.02 | 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.

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

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