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OREGON STATE TREASURY

Local Government

News Report

SEPTEMBER 2014

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BANK HOLIDAY

Columbus Day
October 13
(Oregon State Treasury
open and
Banks closed)

CREDIT MARKET REVIEW

Interest rate volatility picked up slightly in August as investors, once again, grappled with questions relative to both the potential for and unknown timing of a rate hike by the Federal Reserve. The three-year Treasury yield traded as high as 0.98 percent and as low as 0.86 percent while the two-year Treasury yield traded as high as 0.51 percent and as low as 0.41 percent. With summer almost over, market participants will settle back into their desks and look for clues as to where the U.S. and global economy are headed in an attempt to gauge the Fed's next move.

The second estimate of second quarter GDP was released on August 28 and indicated the economy grew at a 4.2 percent annualized growth rate. This reading of the economy was slightly better than the Bloomberg-reported median

economist expectation of 3.9 percent. The strong reading remains a welcome one after the unusually weak first quarter.

The August payroll report was released September 5. The report was weaker than expected with the economy adding 142k nonfarm jobs, less than the Bloomberg-reported median economist expectation of 230k. The headline unemployment rate remained unchanged at 6.1 percent. The labor force participation rate ticked down from 62.9 percent to 62.8 percent. The report revised July nonfarm payroll additions from 209k to 212k jobs while June was revised from 298k to 267k jobs.

(Continued on page 2)

UPCOMING HOLIDAY

Monday, October 13, is Columbus Day. The Oregon State Treasury will be open; however, the Federal Reserve and Oregon banks will be closed. Due to this bank holiday, ACH transfers called-in prior to 1:00 p.m. on Friday, October 10, will settle at your bank on Tuesday, October 14. ACH transfers called-in between 1:00 p.m. Friday, October 10, and 1:00 p.m. Tuesday, October 14, will settle at your bank on Wednesday, October 15.

INTEREST RATES

The average annualized yield for August was: **0.54 percent**

The rate for August was as follows:

August 1 - 31
0.54 percent

CREDIT MARKET REVIEW

(Continued from page 1)

Average hourly earnings, a sign of wage inflation, increased 0.2 percent for the month—a welcome improvement over last month’s flat wage growth performance. Average hourly earnings have risen 2.1 percent over the past 12 months. The Treasury curve caught a strong bid on the back of this report, sending yields lower, as the headline jobs number and revisions to prior months both surprised to the downside.

Two-and three-year treasury yields increased marginally during August. Short duration corporate spreads remained largely unchanged during August according to the Barclays corporate index tracked below. Money market rates continue to be in a supply constrained low-yield environment.

MARKET DATA TABLE

	8/31/2014	1 Month	3 Months	12 Months		8/31/2014	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.02	0.03	0.03	0.02	Barclays 1-3 Year Corporate YTW*	1.02	1.01	0.87	1.18
30-Day Agency Nt Disc**	0.04	0.04	0.03	0.02	Barclays 1-3 Year Corporate OAS*	0.48	0.47	0.45	0.74
90-Day Agency Nt Disc**	0.05	0.07	0.05	0.02	Barclays 1-3 Year Corporate Modified Duration*	1.93	1.97	1.98	1.97
180-Day Agency Nt Disc**	0.07	0.09	0.07	0.06					
360-Day Agency Nt Disc**	0.16	0.15	0.11	0.13	JPM 1-3 Year Floating Rate Note Index Yield***	0.56	0.57	0.58	0.69
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	35.08	36.44	37.05	42.08
30-Day Treasury Bill**	0.01	0.00	0.02	0.00					
60-Day Treasury Bill**	0.01	0.01	0.02	0.01	7-Day Muni VRDN Yield**	0.05	0.06	0.06	0.06
90-Day Treasury Bill**	0.02	0.02	0.03	0.02					
6-Month Treasury Yield**	0.05	0.04	0.05	0.05	O/N GGC Repo Yield**	0.08	0.13	0.13	0.05
1-Year Treasury Yield**	0.09	0.10	0.09	0.12					
2-Year Treasury Yield**	0.490	0.47	0.38	0.40	1-Day CP (A1/P1)**	0.12	0.11	0.10	0.10
3-Year Treasury Yield**	0.93	0.92	0.77	0.78	7-Day CP (A1/P1)**	0.15	0.12	0.11	0.11
					30-Day CP (A1/P1)**	0.15	0.15	0.14	0.15
1-Month LIBOR**	0.16	0.16	0.15	0.18					
3-Month LIBOR**	0.23	0.24	0.23	0.26	30-Day CD (A1/P1)**	0.13	0.16	0.17	0.16
6-Month LIBOR**	0.33	0.33	0.32	0.39	90-Day CD (A1/P1)**	0.17	0.18	0.18	0.19
12-Month LIBOR**	0.57	0.58	0.53	0.67	6-Month CD (A1/P1)**	0.25	0.26	0.26	0.27
					1-Year CD (A1/P1)**	0.43	0.53	0.40	0.44
US 1 Year Inflation Break-Even**	0.40	0.85	1.37	0.77					
US 2 Year Inflation Break-Even**	1.31	1.50	1.60	1.27					
US 3 Year Inflation Break-Even**	1.55	1.71	1.78	1.43	Sources: *Barclays, **Bloomberg, ***JP Morgan				

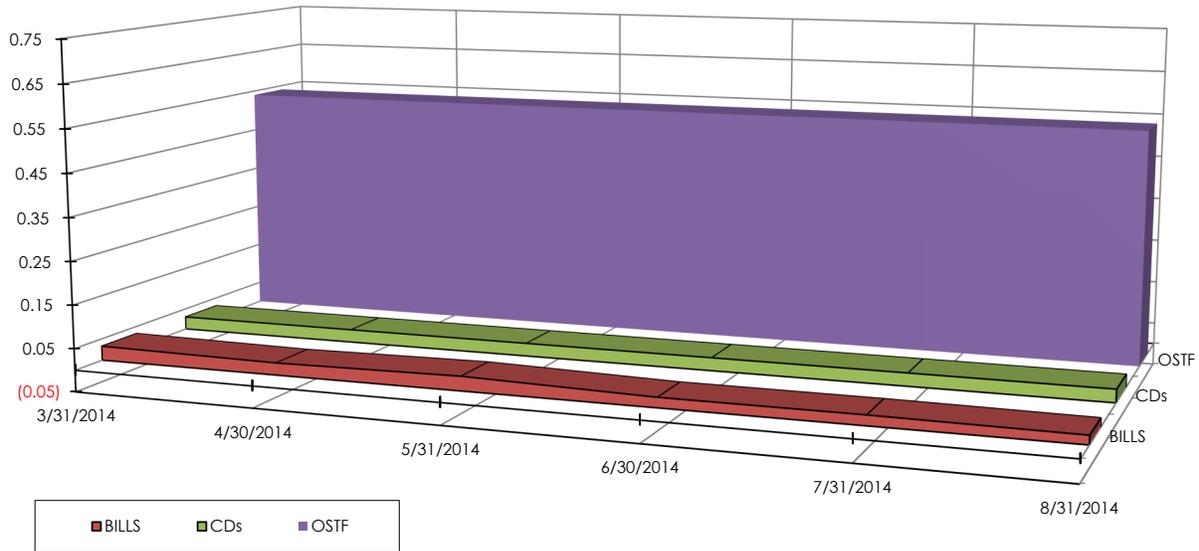
DISASTER RECOVER REMINDER

Treasury is continually evaluating processes to ensure that critical needs are met in the event of a disaster. If a major disaster impacted Treasury, it could take 48 to 72 hours for Treasury to be able to process local government transactions.

It is important to remember that the Local Government Investment Pool is intended to be an investment vehicle, not a bank account. Treasury recommends that local governments have funds available from sources other than the pool at all times to fund expenditures 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.



OREGON SHORT TERM FUND ANALYSIS AS OF 8-31-14



	3/31/2014	4/30/2014	5/31/2014	6/30/2014	7/31/2014	8/31/2014
LGIP AV DOLLARS INVESTED (MM)	6,558	6,488	6,434	5,669	5,348	5,465
STATE AGENCY AV DOLLARS INVESTED (MM)	6,512	6,901	6,902	6,944	8,210	7,384
TOTAL OSTF AV DOLLARS INVESTED (MM)	13,064	13,383	13,330	12,607	13,557	12,849
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	0.03	0.03	0.02	0.02	0.02
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 account holders 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.

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.

Treasury finalized the LGIP Business Systems Renewal business case in mid-August. Based on analysis, the business case recommends proceeding with the Transform approach—utilizing a service vendor hybrid model. Furthermore, the business case stresses that implementation with the state’s existing treasury management services provider, U.S. Bank, is key to meeting policy objectives related to risk and future needs.

Following completion of the business case, Treasury met with the Legislative Fiscal Office (LFO) and State Chief Financial Office (DAS) to discuss the project. In recognition of Treasury not needing to request funds or staff at this time, and with input from both LFO and

DAS, Treasury will not appear before the State Emergency Board in September. Rather, Treasury will proceed with implementation of the Transform approach and will continue to update both LFO and DAS as the project proceeds. Any future request for funds or staff will be addressed during the 2015 legislative session.

Treasury will work closely with U.S. Bank and stakeholders in the coming months to validate specific products and configurations that will best meet Treasury’s and customers’ needs. To support that work, U.S. Bank will dedicate business and project staff and Treasury will continue to engage a quality assurance/quality control contractor. Both resources will help ensure that implementation proceeds effectively and efficiently.

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

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