OREGON STATE TREASURY

Local Government

News Report

DECEMBER 2015

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OSTF RATE INCREASE

Effective Monday, December 7, the Oregon Short Term Fund (OSTF) rate increased from 0.54 percent to 0.60 percent.

PUBLIC FUNDS COLLATERALIZATION PROGRAM (PFCP) REMINDERS

All public funds in Oregon must be deposited in compliance with the requirements of ORS chapter 295. Public officials may deposit public funds up to the amount insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA), currently $250,000, in any insured financial institution with a head office or branch located in the Oregon. Public funds balances that exceed those insurance limits, however, must be held at a depository qualified under the Oregon State Treasury's Public Funds Collateralization Program (PFCP). Through the PFCP, depositories pledge collateral to secure any public funds deposits in excess of deposit insurance amounts, providing additional protection for public funds in the event of a depository failure or loss. ORS chapter 295 specifies the value of the collateral, as well as the types of collateral that are acceptable, and creates a shared liability structure for participating depositories, minimizing (though not eliminating) the risk of loss of such funds.

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UPCOMING HOLIDAYS

Due to the Christmas Day holiday, the Oregon State Treasury, Federal Reserve, and Oregon banks and credit unions will be closed Friday, December 25. ACH transfers called-in prior to 1:00 p.m. on Thursday, December 24, will settle at your bank on Monday, December 28. ACH transfers called-in between 1:00 p.m. Thursday, December 24, and 1:00 p.m. Monday, December 28, will settle at your bank on Tuesday, December 29.

Treasury, the Federal Reserve, and Oregon banks and credit unions also will be closed Friday, January 1, due to the New Year's Day holiday. ACH transfers called-in prior to 1:00 p.m. on Thursday, December 31, will settle at your bank on Monday, January 4. ACH transfers called-in between 1:00 p.m. Thursday, December 31, and 1:00 p.m. Monday, January 4, will settle at your bank on Tuesday, January 5.

INTEREST RATES

The average annualized yield for November was:
0.54 percent

The rate for November was as follows:

November 1–30
0.54 percent

PUBLIC FUNDS COLLATERALIZATION PROGRAM (PFCP) REMINDERS

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A current list of PFCP-qualified depositories is available at the following link: http://www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/Qualified-Depositories.aspx.

ORS chapter 295 and OAR 170-040-0050 require public entities to annually verify their contact information as well as the list of qualified depositories where the entities' funds are deposited. That annual verification process will recur in February. Treasury will send an e-mail to each public entity detailing the information currently on file and asking for a confirmation. If updates are required, the public entity may request those updates in its reply. A response to Treasury's confirmation request is required in order to remain in compliance with state law.

Additional information regarding PFCP requirements, as well as a detailed list of FAQs, can be found at the following link: http://www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/Public%20Funds%20Requirements.aspx. For further information, please call the PFCP Line at (503) 378-3400 or send an e-mail to public.funds@ost.state.or.us.

CREDIT MARKET REVIEW

All eyes now are focused on the Federal Open Market Committee (FOMC) and the result of its upcoming meeting, scheduled to conclude on December 16. Meeting minutes from FOMC's October gathering, as well as recent commentary from FOMC participants, indicates a strong desire by the FOMC to lift interest rates for the first time in nearly a decade. Once the initial hike takes place, whenever that may be, the conversation will shift quickly to how far and how fast the Fed may go as it seeks to move further away from the crises era of ultra-low rates and quantitative easing. Should the Fed raise rates, it is likely that the Fed will be the only major central bank embarking on such a quest, which could mean a higher U.S. dollar that may drag on exports and inflation.

Not to be outdone by the Federal Reserve, on December 3 European Central Bank (ECB) announced new steps in its efforts to stimulate the European economy by lowering the rate paid on deposits held at the central bank from negative 0.20 percent to negative 0.30 percent as well as increasing the time period in which it will purchase additional bonds. The move—widely anticipated by the markets—failed to meet expectations, which sent the Euro higher and stocks and bonds lower. The ECB is now on tap to purchase bonds through March 2017. As of the date of this writing, the German two-year Bund is priced at a yield of negative 0.32 percent, a far cry from the 0.94 percent yield on the U.S. two-year Treasury Note.

The November payroll report was released Friday, December 4. The jobs report was stronger than expected as the economy added 211k nonfarm jobs, more than the Bloomberg-reported median economist expectation of 200k. The headline unemployment remained steady at 5.0 percent while the labor force participation rate moved from 62.4 percent to 62.5 percent. The report contained upward revisions as October nonfarm payroll additions were increased from 271k to 298k jobs while September additions were increased from 137k to 145k.

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CREDIT MARKET REVIEW

(Continued from page 2)

Average hourly earnings met expectations as they advanced 2.3 percent year-over-year. The strength of the October and November job reports will likely provide comfort to the FOMC ahead of its pivotal December meeting.

Front-end interest rate markets continue to march higher in yield on the increased likelihood of a rate hike from the Fed at its upcoming December meeting. As of November month-end, the three-month Treasury Bill is trading at 0.16 percent while the six-month Treasury Bill is trading at 0.39 percent. Corporate credit spreads, as measured by the Barclays 1-3 Year Corporate index (tracked below), improved during November as sentiment toward risk assets improved throughout the month.

MARKET DATA TABLE

	11/30/2015	1 Month	3 Months	12 Months		11/30/2015	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.06	0.02	0.03	0.04	Barclays 1-3 Year Corporate YTW*	1.82	1.68	1.71	1.14
30-Day Agy Nt Disc**	0.10	0.04	0.07	0.05	Barclays 1-3 Year Corporate OAS*	0.78	0.84	0.88	0.60
90-Day Agy Nt Disc**	0.22	0.09	0.15	0.08	Barclays 1-3 Year Corporate Modified Duration*	1.94	1.94	1.97	1.94
180-Day Agy Nt Disc**	0.34	0.18	0.25	0.10					
360-Day Agy Nt Disc**	0.56	0.31	0.39	0.17	JPM 1-3 Year Floating Rate Note Index Yield***	0.67	0.67	0.67	0.63
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	41.88	41.88	41.88	42.65
30-Day Treasury Bill**	0.13	0.00	(0.03)	0.04					
60-Day Treasury Bill**	0.11	0.03	0.00	0.00	7-Day Muni VRDN Yield**	0.01	0.01	0.02	0.04
90-Day Treasury Bill**	0.16	0.06	0.04	0.02					
6-Month Treasury Yield**	0.39	0.23	0.23	0.07	O/N GGC Repo Yield**	0.16	0.01	0.20	0.19
1-Year Treasury Yield**	0.48	0.32	0.37	0.12					
2-Year Treasury Yield**	0.932	0.73	0.72	0.47	1-Day CP (A1/P1)**	0.15	0.18	0.13	0.15
3-Year Treasury Yield**	1.22	1.03	1.02	0.85	7-Day CP (A1/P1)**	0.16	0.17	0.14	0.12
					30-Day CP (A1/P1)**	0.22	0.19	0.18	0.13
1-Month LIBOR**	0.24	0.19	0.20	0.15					
3-Month LIBOR**	0.42	0.33	0.33	0.23	30-Day CD (A1/P1)**	0.21	0.18	0.18	0.16
6-Month LIBOR**	0.66	0.55	0.53	0.33	90-Day CD (A1/P1)**	0.39	0.30	0.29	0.21
12-Month LIBOR**	0.98	0.87	0.84	0.56	6-Month CD (A1/P1)**	0.61	0.50	0.47	0.26
					1-Year CD (A1/P1)**	0.91	0.69	0.69	0.42
US 1 Year Inflation Break-Even**	0.67	0.51	(1.47)	0.64					
US 2 Year Inflation Break-Even**	0.59	0.43	0.28	0.61					
US 3 Year Inflation Break-Even**	0.96	0.84	0.79	1.07	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.

Treasury continues to evaluate short-term mitigation options related to the failing Voice Response System (VRS) prior to implementation of a long-term (online) solution for the LGIP Business System Renewal. Additionally, Treasury continues to examine long-term alternatives (including further evaluation of the proposed platform) and has had preliminary discussions with other potential service providers to explore alternate solutions. Treasury will meet with the LGIP BSR Stakeholder Workgroup in January to review and discuss both the proposed short-term mitigation effort and potential long-term solutions.

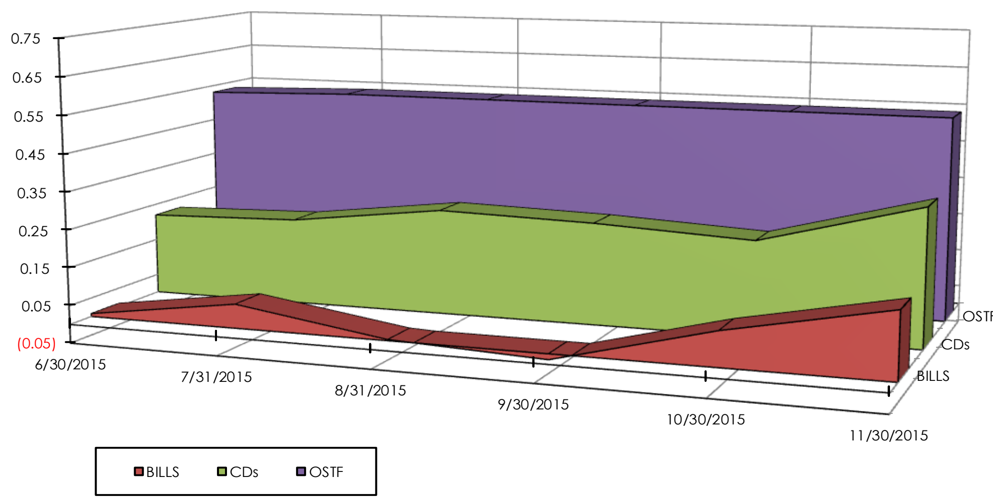
If you have questions or comments about the LGIP Business Systems Renewal effort, please contact project staff at cmirp@ost.state.or.us.

DISASTER RECOVERY REMINDER

The Oregon State 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 done so already, it may be prudent to discuss short-term liquidity options with your governing body and your financial services providers.

OREGON SHORT TERM FUND ANALYSIS 11-30-2015



	6/30/2015	7/31/2015	8/31/2015	9/30/2015	10/30/2015	11/30/2015
LGIP AV DOLLARS INVESTED (MM)	5,963	5,612	5,728	5,723	5,515	7,424
STATE AGENCY AV DOLLARS INVESTED (MM)	7,954	7,424	6,931	7,087	7,762	8,128
TOTAL OSTF AV DOLLARS INVESTED (MM)	13,917	13,035	12,659	12,810	13,277	15,552
OST ANNUAL YIELD (ACT/ACT)	0.53	0.54	0.54	0.54	0.54	0.54
3-MO UST BILLS (BOND EQ YLD)	0.01	0.06	0.00	(0.02)	0.09	0.17
3-MO US CD (ACT/360)*	0.22	0.23	0.28	0.27	0.25	0.36

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 CD rates are obtained from Bloomberg and represent a composite of broker dealer quotes on highly rated (A1+/P1/F1+ from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings respectivley) bank certificates of deposit and are quoted on a CD equivalent yield basis.

***Note that the above graph has been modified to correct an error related to the historical 3 month CD rate that was previously reported. Please contact the Treasury Fixed Income team if you have any questions on this modification.**

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

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www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/default.aspx

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