OREGON STATE TREASURY

Local Government News Report

MARCH 2015

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SALEM, OREGON 97301

INSIDE THIS ISSUE

BANK HOLIDAY

No bank holidays in the month of March

CREDIT MARKET REVIEW

The U.S. economy continues to grow at a healthy pace with the final revision of fourth-quarter growth indicating the economy grew at a 2.2 percent annualized pace. While that is lower than the growth seen in the second and third quarter, it still indicates an economy on the right path. A notable headwind that impacted fourth-quarter growth was a weak showing in the export component as the strong dollar made U.S. goods more expensive. Market participants will now begin focusing on upcoming inflation data and on the March 2015 Federal Open Market Committee meeting statement and press conference to get an update on the Fed's stance around moving short-term rates higher.

Despite a strengthening dollar, a West Coast port strike, a cold snap on the East Coast, and weakness in the oil sector, the U.S. labor market continues to make solid progress on its path to recovering from the global financial crises. The February payroll report was released Friday, March 6. The jobs report was a strong report. The headline jobs number was better than expected with the economy adding 295k nonfarm jobs, more than the Bloomberg-reported median economist expectation of 235k. The headline unemployment rate moved down to 5.5 percent, partly due to a lower labor force participation rate of 62.8 percent (down 0.1 percent from the prior month). The report revised January nonfarm payroll additions from 257k to 239k jobs while December remained unchanged at 329k jobs. The report was not without blemishes as the labor force participation rate dipped lower while wage growth remained tepid at a 2.0 percent annualized growth rate.

Money market rates moved lower again in February as demand for high-quality, liquid, and short-duration assets continued to outpace supply. Short-duration corporate spreads rallied by five basis points during February, according to the Barclays corporate index (tracked below). Two-year and three-year U.S. Treasury rates moved higher into month-end as markets moved up their expectation for a potential Fed rate hike. After the release of the strong February jobs report, U.S. treasuries sold off and sent rates higher with the two-year U.S. Treasury rate moving to 0.72 percent and the three-year U.S. Treasury rate moving to 1.14 percent.

INTEREST RATES

The average annualized yield for February was: **0.50 percent**

The rates for February were as follows:

February 1 - 28
0.50 percent

MARKET DATA TABLE

	2/28/2015	1 Month	3 Months	12 Months		2/28/2015	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.04	0.04	0.04	0.02	Barclays 1-3 Year Corporate YTW*	1.30	1.23	1.14	0.88
30-Day Agy Nt Disc**	0.04	0.06	0.05	0.02	Barclays 1-3 Year Corporate OAS*	0.62	0.67	0.60	0.51
90-Day Agy Nt Disc**	0.04	0.07	0.08	0.03	Barclays 1-3 Year Corporate Modified Duration*	1.95	1.96	1.94	1.96
180-Day Agy Nt Disc**	0.08	0.08	0.10	0.06					
360-Day Agy Nt Disc**	0.24	0.18	0.17	0.12	JPM 1-3 Year Floating Rate Note Index Yield***	0.70	0.72	0.63	0.57
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	48.04	49.20	42.65	32.02
30-Day Treasury Bill**	0.00	0.01	0.04	0.04					
60-Day Treasury Bill**	0.00	0.00	0.00	0.03	7-Day Muni VRDN Yield**	0.02	0.02	0.04	0.03
90-Day Treasury Bill**	0.01	0.01	0.02	0.03					
6-Month Treasury Yield**	0.07	0.06	0.07	0.07	O/N GGC Repo Yield**	0.14	0.08	0.19	0.07
1-Year Treasury Yield**	0.19	0.15	0.12	0.10					
2-Year Treasury Yield**	0.620	0.52	0.47	0.32	1-Day CP (A1/P1)**	0.17	0.14	0.15	0.10
3-Year Treasury Yield**	1.00	0.83	0.85	0.66	7-Day CP (A1/P1)**	0.18	0.14	0.12	0.11
					30-Day CP (A1/P1)**	0.16	0.17	0.13	0.14
1-Month LIBOR**	0.17	0.17	0.15	0.15					
3-Month LIBOR**	0.26	0.25	0.23	0.24	30-Day CD (A1/P1)**	0.17	0.15	0.16	0.17
6-Month LIBOR**	0.38	0.36	0.33	0.33	90-Day CD (A1/P1)**	0.24	0.23	0.21	0.18
12-Month LIBOR**	0.68	0.62	0.56	0.55	6-Month CD (A1/P1)**	0.32	0.28	0.26	0.26
					1-Year CD (A1/P1)**	0.66	0.48	0.42	0.40
US 1 Year Inflation Break-Even**	1.31	(0.03)	0.64	2.01					
US 2 Year Inflation Break-Even**	1.27	0.34	0.61	1.92					
US 3 Year Inflation Break-Even**	1.43	0.98	1.07	1.91	Sources: *Barclays, **Bloomberg, ***JP Morgan				

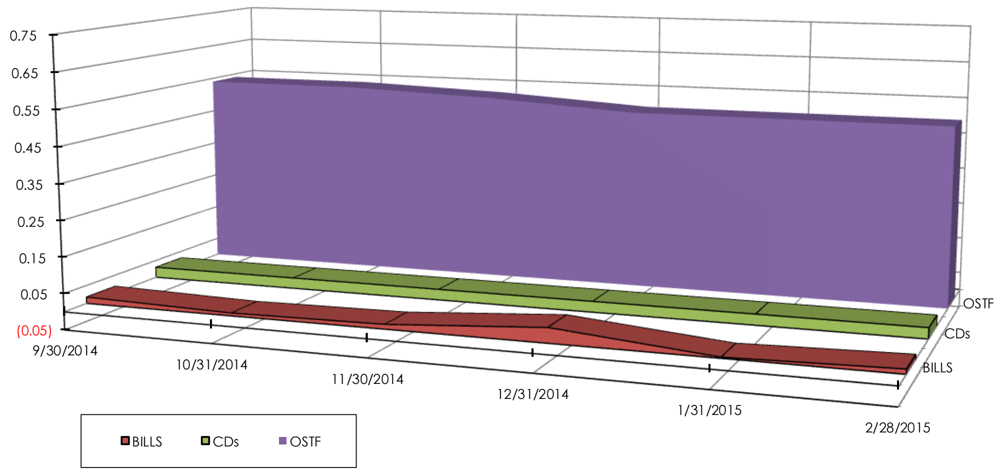
CMIRP CORNER

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.

The project team has been closely reviewing current business and technical processes to identify needed changes and possible improvements. The project team also has identified a number of policy-related questions that it will be analyzing and presenting to management in the coming months. Lastly, the project team will be working closely with U.S. Bank throughout February and March to develop a detailed implementation plan, evaluate and select system enhancements, and initiate contracting.

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 2-28-15



	9/30/2014	10/31/2014	11/30/2014	12/31/2014	1/31/2015	2/28/2015
LGIP AV DOLLARS INVESTED (MM)	5,288	5,151	6,877	7,326	7,351	6,956
STATE AGENCY AV DOLLARS INVESTED (MM)	7,537	7,597	7,192	6,936	6,944	7,168
TOTAL OSTF AV DOLLARS INVESTED (MM)	12,825	12,748	14,069	14,262	14,295	14,124
OST ANNUAL YIELD (ACT/ACT)	0.54	0.54	0.53	0.50	0.50	0.50
3-MO UST BILLS (BOND EQ YLD)	0.02	0.01	0.01	0.04	0.00	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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