OREGON STATE TREASURY

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Local Government

News Report

OCTOBER 2015

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Gary Halvorson, Oregon State Archives

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CREDIT MARKET REVIEW

The Federal Reserve has communicated that it wishes to see ample progress on both aspects of its dual mandate of full employment and stable prices prior to raising interest rates. After the September jobs report, the headline unemployment rate now sits at 5.1 percent. Inflation, as measured by the Consumer Price Index (CPI) ex food and energy, posted a 1.9 percent annualized gain for its September reading. Headline CPI, however, came in at zero percent year-over-year, largely due to the year-long slide in oil and other commodities. Barring another downturn in the energy markets, it is likely that headline CPI moves higher in coming months. Despite the aforementioned data points, and commentary from various Fed officials, markets are continuing to discount any move by the Fed in 2015. At the time of this writing, market participants are placing a mere 32.3 percent probability that the Fed hikes rates in 2015. By the same measure, the markets are pricing in a 90.4 percent chance that the Fed raises rates between today and the end of 2016. Should the Fed decide to move rates in 2015, the markets may have difficulty digesting even a mere 0.25 percent increase in the federal funds rate.

The September payroll report was released Friday, October 2. The jobs report was weaker than expected as the economy added 142k nonfarm jobs, less than the Bloomberg-reported median economist expectation of 200k. The headline unemployment rate remained steady at 5.1 percent, while the labor force participation rate declined from 62.6

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UPCOMING BANK HOLIDAY

Due to the Veterans Day holiday, the Oregon State Treasury, the Federal Reserve, and Oregon banks and credit unions will be closed on Wednesday, November 11. ACH transfers called-in prior to 1:00 p.m. on Tuesday, November 10, will settle at your bank on Thursday, November 12. ACH transfers called-in between 1:00 p.m. Tuesday, November 10, and 1:00 p.m. Thursday, November 12, will settle at your bank on Friday, November 13.

INTEREST RATES

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

The rate for September was as follows:

September 1–30
0.54 percent

CREDIT MARKET REVIEW

(Continued from page 1)

percent to 62.4 percent. The labor force participation rate is now at a 38-year low. The report contained downward revisions as August nonfarm payroll additions were reduced from 173k to 136k jobs while July was revised lower from 245k additions to 223k. Average hourly earnings came in slightly below expectations advancing 2.2 percent year-over-year. All of this, once again, brings up the question of labor market slack. What is the true indicator of the labor market given the 38-year low in labor force participation, continued anemic growth in wages, yet a below historical average unemployment rate of 5.1 percent?

After a few exciting weeks in September, the cash markets are back to ultra-low levels with three-month Treasury Bills at 0.01 percent and six-month Treasury Bills at 0.07 percent. Two-year Treasury rates, which traded at 0.80 percent ahead of the September Federal Open Market Committee, moved back to 0.63 percent at September month-end and traded as low as 0.55 percent after the weak September jobs report. Credit spreads, as measured by the Barclays 1-3 Year Corporate index (tracked below), moved wider by two basis points. One-month and three-month LIBOR levels remained roughly unchanged as well-capitalized and liquid bank balance sheets reduce the need for banks to seek funding in the markets. This new regulation-driven world appears to be making LIBOR rates stickier and thus not as responsive to market repricing as Treasury yields. This trend bears watching as many investors rely on LIBOR resets to offset weakness in fixed-rate positions.

MARKET DATA TABLE

	9/30/2015	1 Month	3 Months	12 Months		9/30/2015	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.00	0.03	0.01	0.01	Barclays 1-3 Year Corporate YTW*	1.64	1.73	1.51	1.17
30-Day Agy Nt Disc**	0.04	0.06	0.02	0.01	Barclays 1-3 Year Corporate OAS*	0.90	0.88	0.78	0.54
90-Day Agy Nt Disc**	0.12	0.15	0.06	0.02	Barclays 1-3 Year Corporate Modified Duration*	1.97	1.96	2.00	1.96
180-Day Agy Nt Disc**	0.19	0.25	0.12	0.04					
360-Day Agy Nt Disc**	0.32	0.39	0.27	0.15	JPM 1-3 Year Floating Rate Note Index Yield***	0.67	0.67	0.67	0.60
					JPM 1-3 Year Floating Rate Note Index Discount Margin***	41.88	41.88	41.88	32.99
30-Day Treasury Bill**	0.04	0.00	0.00	0.00					
60-Day Treasury Bill**	0.01	0.01	(0.00)	0.00	7-Day Muni VRDN Yield**	0.02	0.02	0.07	0.04
90-Day Treasury Bill**	0.01	0.06	0.00	0.00					
6-Month Treasury Yield**	0.07	0.23	0.11	0.03	O/N GGC Repo Yield**	0.35	0.29	0.44	0.05
1-Year Treasury Yield**	0.31	0.38	0.27	0.10					
2-Year Treasury Yield**	0.631	0.74	0.65	0.57	1-Day CP (A1/P1)**	0.16	0.12	0.13	0.19
3-Year Treasury Yield**	0.90	1.05	1.01	1.03	7-Day CP (A1/P1)**	0.22	0.13	0.14	0.19
					30-Day CP (A1/P1)**	0.21	0.18	0.15	0.19
1-Month LIBOR**	0.19	0.20	0.19	0.15					
3-Month LIBOR**	0.33	0.33	0.28	0.24	30-Day CD (A1/P1)**	0.20	0.19	0.18	0.19
6-Month LIBOR**	0.53	0.53	0.44	0.33	90-Day CD (A1/P1)**	0.30	0.29	0.25	0.18
12-Month LIBOR**	0.85	0.84	0.77	0.58	6-Month CD (A1/P1)**	0.48	0.48	0.38	0.25
					1-Year CD (A1/P1)**	0.77	0.64	0.65	0.41
US 1 Year Inflation Break-Even**	(1.75)	(1.29)	0.73	(0.10)					
US 2 Year Inflation Break-Even**	0.21	0.30	1.19	1.05					
US 3 Year Inflation Break-Even**	0.67	0.82	1.37	1.30	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 is continuing to pursue a short-term mitigation project related to the failing Voice Response System (VRS) prior to implementation of a long-term (online) solution. This short-term effort is intended to address risks associated with the failing VRS only and is expected to have limited customer-facing impacts. This approach also will provide time for continued examination of long-term alternatives (including further evaluation of the proposed platform). Treasury recently discussed these paths forward at both the OACTFO and OGFOA conferences, where Treasury also previewed screen concepts of the proposed long-term platform. In the coming months, Treasury will continue to work closely with its LGIP BSR Stakeholder Work Group with regard to the VRS risk mitigation effort and evaluation of proposed 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.

Independent Registered Municipal Advisor (IRMA) Exemption Requirements

At a recent meeting of the Municipal Debt Advisory Commission, an attendee raised the issue that some local government issuers have limited understanding of how to manage relationships with bond underwriters in the wake of the Security and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board's (MSRB) new Municipal Advisor (MA) rules.

The SEC and MSRB put forth regulations effective July 1, 2014, requiring registration of all independent registered municipal advisors (IRMA). The regulations clarify that underwriters cannot provide financial advice to municipal issuers if they are not an IRMA unless certain circumstances are met.

The following articles provide background information on this issue:

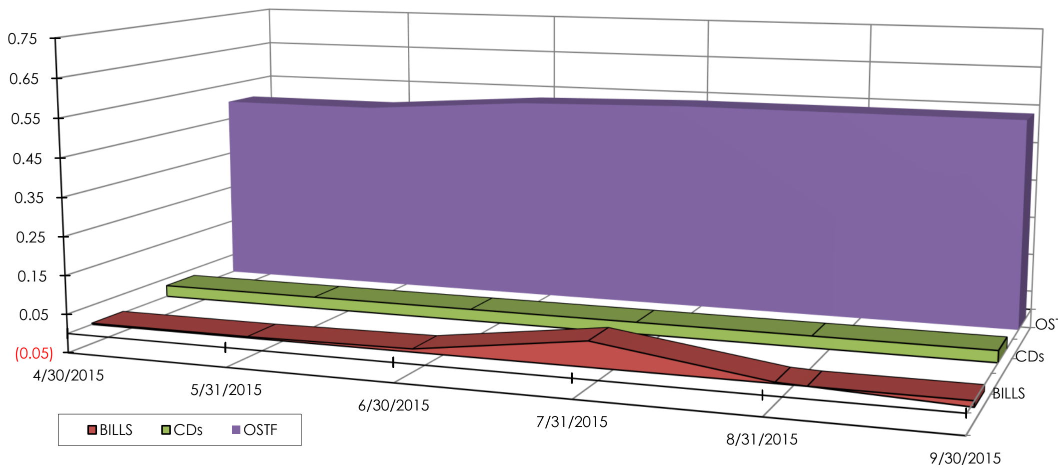
- Government Finance Officers Association's (GFOA) Issue Brief: SEC Municipal Advisor Rule
  http://www.gfoa.org/sites/default/files/u2/MA%20Rule%20Issue%20Brief.pdf
- SEC's Municipal Advisors Frequently Asked Questions (FAQ), Question 3
  http://www.sec.gov/ (In the Search field, enter *Municipal Advisor FAQ*)
- RW Baird's The Municipal Advisor Rule, and What It Means to Issuers
  http://www.rwbaird.com/ (In the Search field, enter *Municipal Advisor Rule*)

One of the most frequently used methods that local governments employ to allow continued communications with underwriters is known as the IRMA exemption. The exemption requires an issuer to engage the services of an IRMA, upon whose advice a municipality can rely as it evaluates and implements its financing plans. Under the MA rules, underwriters are required to receive written representations from an issuer regarding the issuer's engagement of an IRMA before the underwriters can enter into bond structuring conversations with state and local governments.

Many jurisdictions have found that an annual posting of the name of its IRMA(s) on its official website is the most straightforward way to meet the IRMA exemption requirements of the new rule. Below are some sample IRMA exemption postings:

- State of Oregon – Agency IRMA Exemption Posting
  http://www.oregon.gov/treasury/Divisions/DebtManagement/StateAgencies/Pages/default.aspx
- City of Portland – IRMA Exception Letter
  https://www.portlandoregon.gov/brfs/65182
- Escambia County Housing Facilities Authority – IRMA Exemption Letter
  http://www.escambiahfa.com/about/irma-exemption-letter

OREGON SHORT TERM FUND ANALYSIS AS OF 9-30-15



Oregon Short Term Fund Analysis as of 9/30/15

	4/30/2015	5/31/2015	6/30/2015	7/31/2015	8/31/2015	9/30/2015
LGIP AV DOLLARS INVESTED (MM)	6,763	6,696	5,963	5,612	5,728	5,723
STATE AGENCY AV DOLLARS INVESTED (MM)	7,736	7,998	7,954	7,424	6,931	7,087
TOTAL OSTF AV DOLLARS INVESTED (MM)	14,499	14,694	13,917	13,035	12,659	12,810
OST ANNUAL YIELD (ACT/ACT)	0.50	0.50	0.53	0.54	0.54	0.54
3-MO UST BILLS (BOND EQ YLD)	0.00	0.00	0.01	0.06	0.00	(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 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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www.oregon.gov/treasury/Divisions/Finance/LocalGov/Pages/default.aspx

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