OREGON STATE TREASURY

Local Government

News Report

MARCH 2016

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350 WINTER ST, NE SUITE 100
SALEM, OREGON 97301

INSIDE THIS ISSUE

Gary Halvorson, Oregon State Archives

BANK HOLIDAY

No Bank Holiday in March

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 provided an update on the LGIP Business Systems Renewal (BSR) at the Oregon Government Finance Officers Association (OGFOA) Spring Conference in Sunriver on March 8. The presentation included information about recent risk mitigation strategies undertaken in relation to the current and aging Voice Response System (VRS). Those strategies include both refinement and validation of business continuity plans and identification of a viable short-term technological effort that could be implemented if a long-term failure of the VRS occurs prior to implementation of a long-term solution.

Treasury also provided high-level information about four viable long-term solutions (based on functionality and cost-effectiveness) identified through recent discussions with potential service vendors. In the coming weeks, Treasury will work to launch a procurement effort to select a service vendor and will continue to work with the LGIP BSR Stakeholder Workgroup throughout the selection process.

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

CREDIT MARKET REVIEW

January's volatility spilled into the first half of February, with fears over the state of global growth and inflation driving a rally in sovereign rates and concerns about the impact of negative interest rate policy hitting the financial sector. While fundamental data in the U.S. appears to be more positive than negative, markets nevertheless remained anxious about the possibility of recession domestically and globally. While the month ended with sovereign yields lower, most credit sector spreads wider and the U.S dollar weaker, supportive central bank rhetoric, a rebound in oil prices, and improved economic

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INTEREST RATES

The average annualized yield for February was **0.6866 percent**

The rates for February were as follows:

February 1–23
0.67 percent

February 24–29
0.75 percent

CREDIT MARKET REVIEW

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data helped spur a partial recovery in riskier assets in the second half of the month.

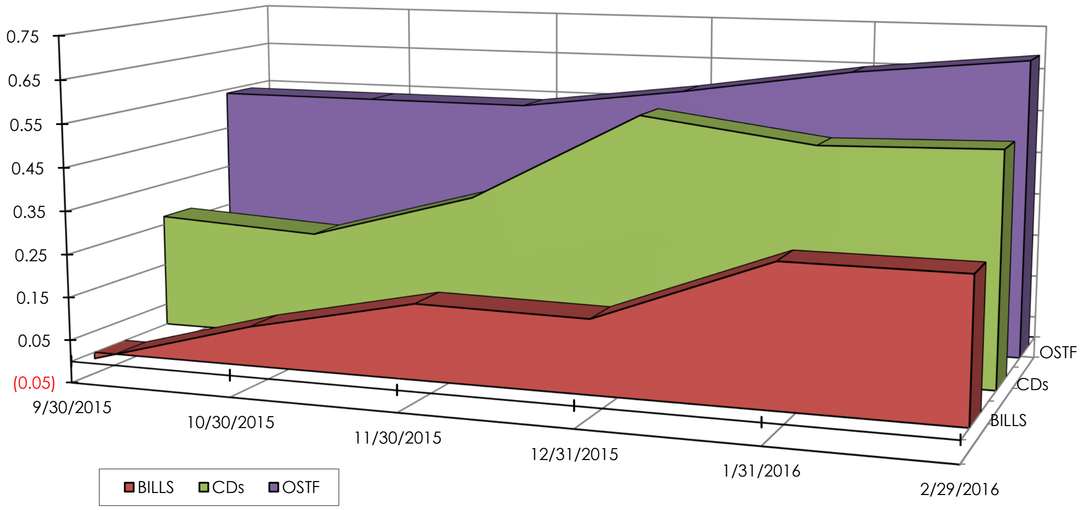
In terms of the economic data, the February U.S. jobs report, released on March 4, was strong despite some blemishes, with headline coming in at 242,000 for February and prior months being revised 30,000 higher. In spite of the volatility we have seen in the financial markets, the labor markets have continued to stay resilient. The second estimate of U.S. 4Q2015 GDP was revised upward by 0.3 percent, principally due to a positive inventory change. The U.S. grew at an annualized rate of 1.0 percent from an initially reported 0.7 percent, easily beating the consensus estimate that expected a downward revision to 0.4 percent.

Inflation surprised to the upside as the Consumer Price Index (CPI) was unchanged for the month compared with estimates looking for a -0.1 percent contraction. Core CPI, excluding food and energy, rose 0.3 percent month-over-month (MoM) and on a year-over-year (YoY) basis, headline and core CPI were up 1.4 percent and 2.2 percent, respectively. The Personal Consumption Expenditures (PCE) Price Index, considered to be the Federal Reserve's preferred inflation gauge, rose 0.1 percent MoM and 1.3 percent YoY in January. Excluding food and energy, the Core PCE Index grew 0.3 percent MoM and 1.7 percent YoY.

Housing data were generally weaker during the month. Housing starts and permits for January fell short of the consensus estimate as starts fell 3.8 percent MoM to an annualized rate of 1.099 million and permits declined 0.2 percent MoM to 1.202 million. Existing home sales held on to December's large gain (12.1 percent) and were up 0.4 percent in January to an annualized rate of 5.47 million compared with the consensus estimate of 5.32 million. New home sales, however, fell significantly short of estimates, largely due to a downturn in the Western states—sales were down 9.2 percent MoM to an annualized rate of 494,000 compared with expectations for 520,000. Although it was a relatively large monthly decrease, the 494,000 level was still considered solid given that December's strong 544,000 print was not revised downward. Lastly on the housing front, the most recent S&P/Case-Schiller 20-City Composite Home Price Index for December 2015 grew 0.8 percent MoM and 5.7 percent YoY, the same as November. Portland, San Francisco, and Denver continued to report the strongest gains of the 20 cities as each posted a double-digit YoY increase.

As a result, Fed expectations have pivoted pretty significantly over the last five to six weeks. Due to the potential of rising short-term rates in the U.S., and keeping in mind the primary OSTF objective of preservation of principal, staff remains cautious about the future path of rate hikes and accompanying volatility. OSTF staff will continue investing in less-than-three-month securities as well as weekly, monthly, and quarterly floating rate securities. As structural factors continue to compress yields on money market eligible securities, staff continues to emphasize opportunities outside the money market space, including asset-backed securities (ABS) and high-quality corporate credit, which offer some capital appreciation potential and also reflects the gradually improving U.S. economic fundamentals—the trigger for another Fed rate hike.

OREGON SHORT TERM FUND ANALYSIS AS OF 2-29-16



	9/30/2015	10/30/2015	11/30/2015	12/31/2015	1/31/2016	2/29/2016
LGIP AV DOLLARS INVESTED (MM)	5,723	5,515	7,424	7,798	7,419	7,409
STATE AGENCY AV DOLLARS INVESTED (MM)	7,087	7,762	8,128	7,701	8,316	7,852
TOTAL OSTF AV DOLLARS INVESTED (MM)	12,810	13,277	15,552	15,499	15,735	15,261
OST ANNUAL YIELD (ACT/ACT)	0.54	0.54	0.54	0.59	0.65	0.69
3-MO UST BILLS (BOND EQ YLD)	(0.02)	0.09	0.17	0.17	0.32	0.32
3-MO US CD (ACT/360)*	0.27	0.25	0.36	0.57	0.52	0.53

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 US 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-MO US 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.

MARKET DATA TABLE

	2/29/2016	1 Month	3 Months	12 Months		2/29/2016	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.27	0.24	0.03	0.04	Barclays 1-3 Year Corporate YTW*	2.02	1.95	1.81	1.30
30-Day Agy Nt Disc**	0.29	0.28	0.10	0.04	Barclays 1-3 Year Corporate OAS*	1.12	1.05	0.79	0.62
90-Day Agy Nt Disc**	0.35	0.34	0.22	0.04	Barclays 1-3 Year Corporate Modified Duration*	1.93	1.91	1.94	1.95
180-Day Agy Nt Disc**	0.43	0.41	0.31	0.08					
360-Day Agy Nt Disc**	0.60	0.52	0.43	0.24	7-Day Muni VRDN Yield**	0.01	0.01	0.01	0.02
					O/N GGC Repo Yield**	0.24	0.29	0.22	0.14
30-Day Treasury Bill**	0.23	0.20	0.06	0.00					
60-Day Treasury Bill**	0.27	0.26	0.10	0.00	US 1 Year Inflation Break-Even**	1.43	0.84	0.65	1.31
90-Day Treasury Bill**	0.31	0.30	0.15	0.01	US 2 Year Inflation Break-Even**	1.18	0.64	0.60	1.27
6-Month Treasury Yield**	0.47	0.43	0.37	0.07	US 3 Year Inflation Break-Even**	1.16	0.97	0.99	1.43
1-Year Treasury Yield**	0.60	0.45	0.48	0.19					
2-Year Treasury Yield**	0.776	0.78	0.92	0.62	1-Day CP (A1/P1)**	0.40	0.36	0.13	0.17
3-Year Treasury Yield**	0.89	0.97	1.21	1.00	7-Day CP (A1/P1)**	0.41	0.38	0.15	0.18
					30-Day CP (A1/P1)**	0.46	0.45	0.22	0.16
1-Month LIBOR**	0.44	0.43	0.24	0.17					
3-Month LIBOR**	0.63	0.61	0.41	0.26	30-Day CD (A1/P1)**	0.42	0.41	0.21	0.17
6-Month LIBOR**	0.89	0.86	0.65	0.38	90-Day CD (A1/P1)**	0.58	0.58	0.36	0.24
12-Month LIBOR**	1.18	1.14	0.97	0.68	6-Month CD (A1/P1)**	0.83	0.83	0.59	0.32
Sources: *Barclays, **Bloomberg, ***JP Morgan					1-Year CD (A1/P1)**	1.08	1.04	0.86	0.66

GET YOUR POOL ACCOUNT STATEMENTS ONLINE

Are you still receiving pool account statements in the mail? As a reminder, Oregon State Treasury (Treasury) provides an online statement option. The online statement software was designed by Treasury to enable users to view, save, and print daily and/or monthly pool account statements at their convenience—24 hours a day, 7 days a week. Statements are updated each afternoon for access to same day information. Three years of historical data also is available.

Local governments ready to make the move to online statements may contact Banking Operations via e-mail at ost.banking@ost.state.or.us. A customer service representative will work with local governments to set up access.

LOCAL GOVERNMENT INTERMEDIATE FUND

As many of you are aware, Treasury has been working on a plan to develop an intermediate term commingled pool option for local governments. At its meeting on March 9, the Oregon Investment Council (OIC) approved Treasury's recommendation for such a pool. Based on OIC's approval, Treasury has moved into an implementation phase and is in negotiations with our anticipated service provider while also finalizing associated processes and documents. Treasury currently expects the fund to be open for deposits on July 1.

CONTACT INFORMATION

Director of Finance
Cora Parker
503.378.4633

Deputy Director of Finance
Mike Auman
503.378.2752

Executive Assistant
Kari McCaw
503.378.4633

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Banking Operations Manager
Brady Coy
503.378.2457

Cash Management Improvement & Renewal Program
cmirp@ost.state.or.us

Business Analysts
Angel Bringelson
503.378.5865
Bryan Cruz González
503.378.3496

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Oregon Short Term Fund Staff
503.378.4155

Local Government Coordinator
Jessica Butler

Phone
503.378.3561
or
1.800.452.0345

Fax
503.373.1179

E-mail
lgip@ost.state.or.us

Voice Response System (VRS)
1.877.888.1767

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Website
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Oregon State Treasury, 350 Winter Street NE, Suite 100, Salem, Oregon 97301
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