

RATE ENVIRONMENT

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THE MARKETS

Minutes of the Fed's December policy meeting revealed that some officials expressed concern inflation would linger below the 2% target. While the decision to raise rates was unanimous, several members expressed "significant concern about still-low readings on actual inflation" in addition to uncertainty in the outlook. Fed Vice Chairman Fischer said policy makers' forecasts predicting four interest-rate increases in 2016 were "in the ballpark," though China's slowing economy and other factors make it difficult to predict the path of policy. Officials meet next Jan. 26-27, and futures markets place no chance of another rate increase then, though the probability rises to 50% for the March meeting. The bond market rallied, sending the yield on the benchmark 10-year note to a two-month low, as concerns over the global economy offset news of strong jobs growth. Stocks steadied on Friday after a turbulent week, as Chinese officials moved to reassure markets. The Dow was off 6% for the week, while the Nasdaq tumbled 7%.

THE ECONOMY

Nonfarm payrolls increased 292,000 in December and the jobless rate held steady at 5%. The ISM manufacturing index fell to 48.2 from 48.6 in November, as the employment index was off three points and export orders unexpectedly jumped. The ISM non-manufacturing gauge declined to 55.3 in the December print. Construction spending was weaker than expected in November, falling 0.4% against consensus expectations for a 0.6% increase. The nominal trade deficit narrowed to \$42.4 billion in November, a bit more than expected.

Look for a flat reading for December retail sales after a modest 0.2% advance the prior month. Producer prices are expected to ease 0.2% for a 1.0% annual price decline. Industrial production is seen down 0.2% with capacity utilization falling to 76.8.

KEY RATES

Issue	Value	Last Week	Issue	Value	Last Week
Fed Funds	0.50%	0.50%	2-Year Agency	0.99%	1.11%
Prime	3.50%	3.50%	5-Year Agency	1.63%	1.86%
2-Year Treasury	0.94%	1.03%	15-Year MBS	2.13%	2.25%
5-Year Treasury	1.57%	1.73%	30-Year MBS	2.87%	3.03%
10-Year Treasury	2.13%	2.25%	3-Month LIBOR	0.62%	0.59%

Source: Bloomberg

INTEREST RATE SWAPS / CAPS / FLOORS

Buyer Pays Fixed- Indications only based on quarterly settlements

Term	SWAP			CAP		FLOOR	
	90-Day LIBOR	PRIME		90-Day LIBOR (0.50%)	90-Day LIBOR (2.50%)	90-Day LIBOR (0.50%)	90-Day LIBOR (2.00%)
1-Year	0.80%	3.50%		0.28%	0.06%	0.02%	1.07%
2-Year	1.02%	3.82%		1.02%	0.22%	0.06%	1.78%
3-Year	1.21%	4.13%		2.05%	0.54%	0.17%	2.43%
5-Year	1.50%	4.42%		4.87%	1.55%	0.57%	3.84%

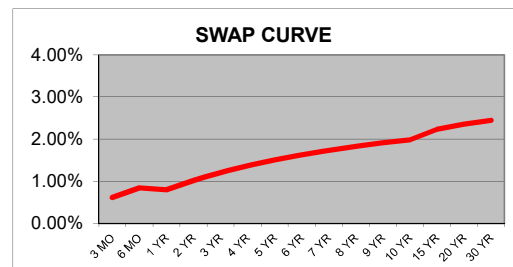
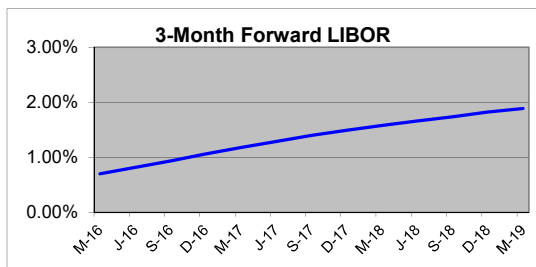
Source: Bloomberg, PNC

OTHER INDICATORS

	Value	% Change YTD		Value	% Change YTD
OIL (30 day futures)	\$ 33.16	-10.48%	Dow Jones Ind Avg	16,346.45	-6.19%
Commodities (CRB Index)	\$ 168.58	-4.29%	NASDAQ	4,643.63	-7.26%
EURO (spot)	\$ 1.092	0.48%	S&P 500	1,922.03	-5.97%

Source: Bloomberg

YIELD CURVES



Source: Bloomberg

IN THE NEWS

The FASB issued a new Accounting Standards Update (ASU), Financial Instruments—Recognition and Measurement of Financial Assets and Financial Liabilities. The standard addresses recognition, measurement, presentation, and disclosure of financial instruments. The ASU requires equity investments to be measured at fair value with changes recognized in net income. For public companies, the ASU is effective for fiscal years beginning after December 15, 2017. For all other organizations, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

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