

Interest Rate Outlook and FHLB Member Activities

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February 3, 2015

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Today's Agenda

- Interest-Rate Outlook
 - Fed Forward Guidance and FOMC Projections
 - Forward Treasury Curve and CME FedWatch
- Economic Outlook
 - Yellen's labor market "dashboard"
 - 4Q GDP
- FHLB Boston Advance Curve
- Forward Starting Advance
- Symmetrical Prepayment Advance
- Expander Advance
- Long-Term Advance Special, Dutch Auction Format, February 6, 2015

Fed Forward Guidance

- January 28, 2015 FOMC Statement

[E]conomic activity has been expanding at a solid pace. Labor market conditions have improved further, with strong job gains and a lower unemployment rate... Household spending is rising moderately; recent declines in energy prices have boosted household purchasing power.

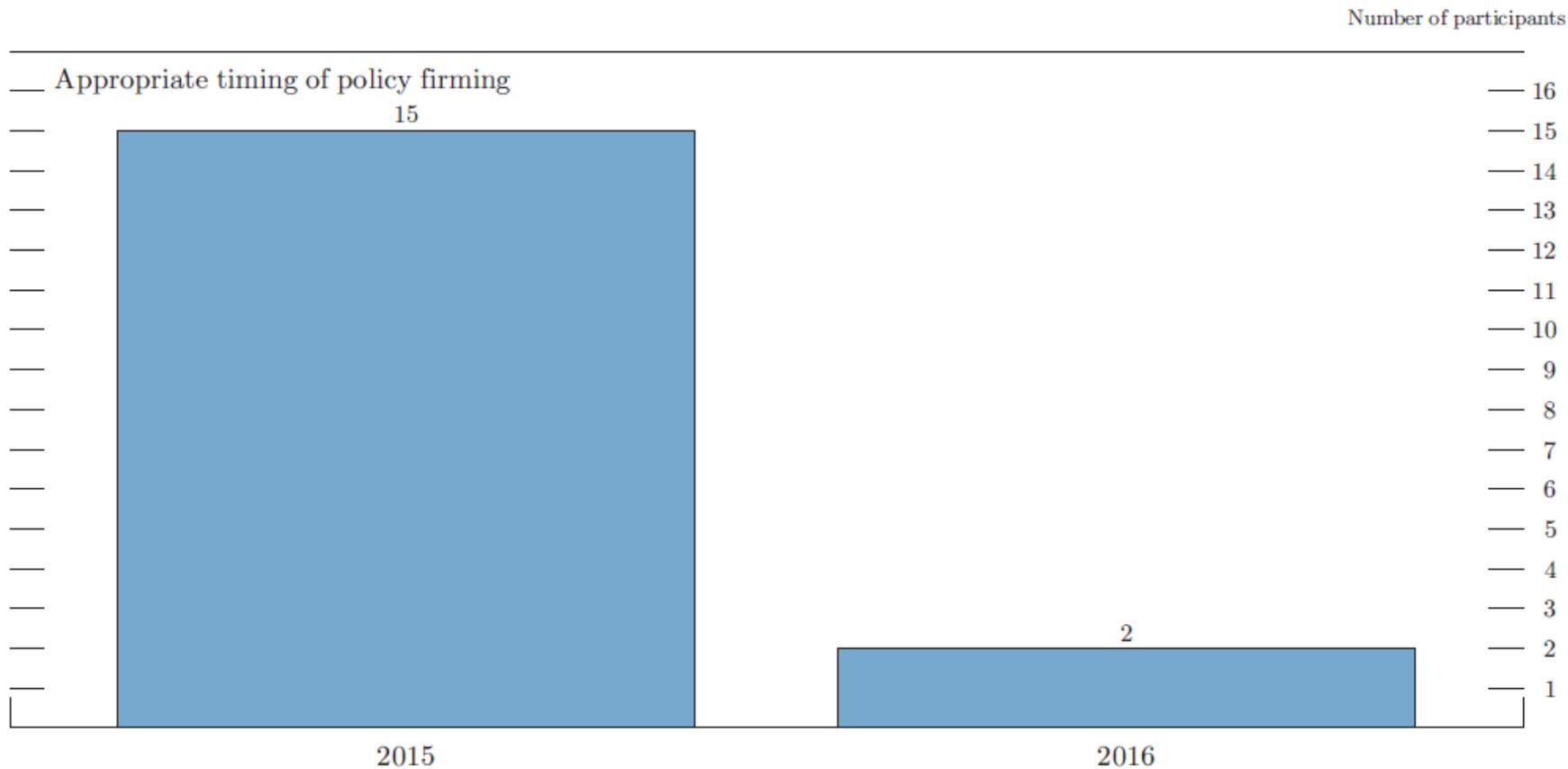
Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices.

- Maintaining the current policy stance “for a considerable period of time” has been replaced with:

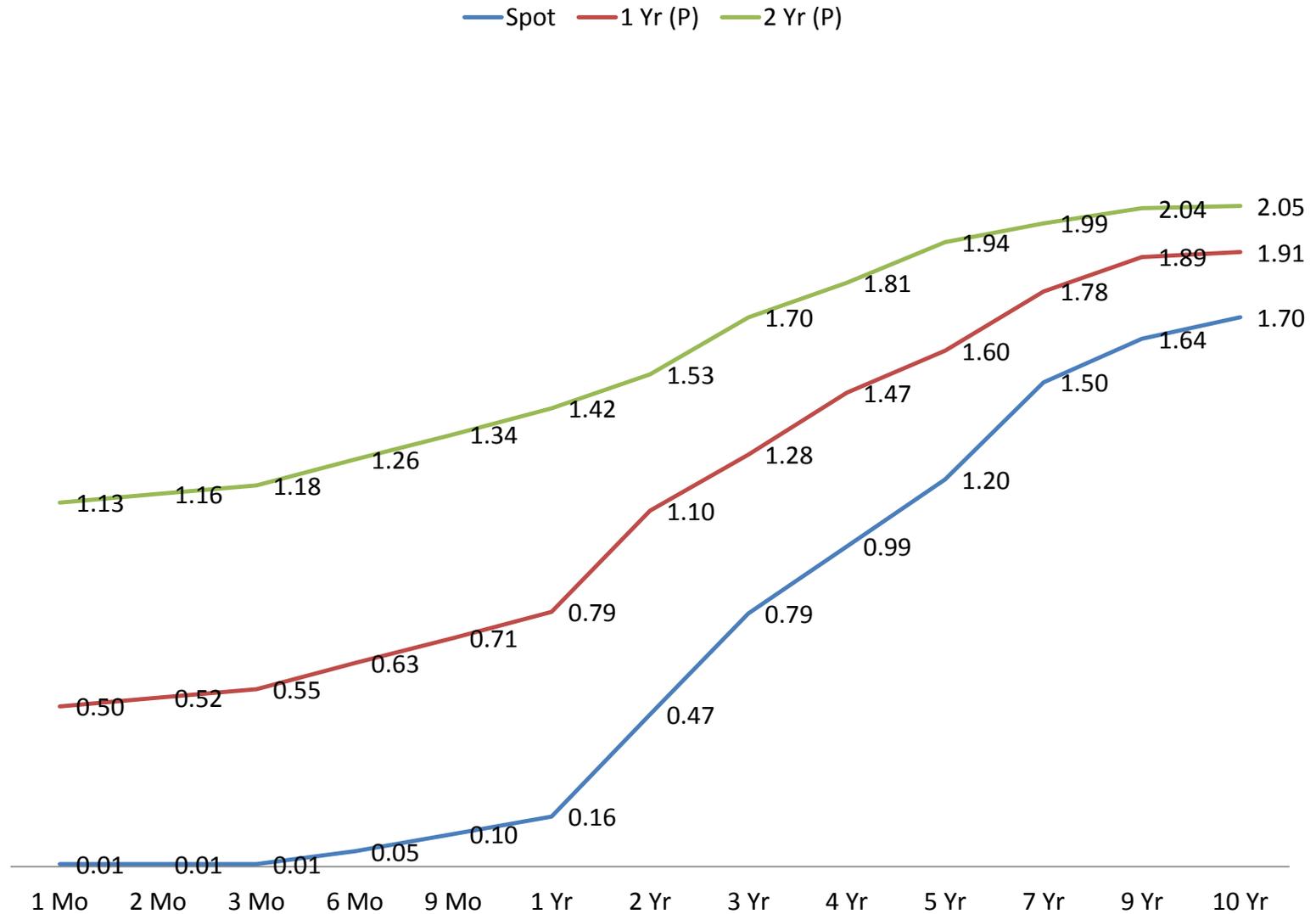
*...the Committee judges that it can be **patient** in beginning to normalize the stance of monetary policy.*

- Fed will consider a variety of economic indicators, especially of labor market conditions, in determining timing of policy normalization

FOMC Participants Anticipating “Policy Firming” in 2015 vs 2016, As of December 17, 2014



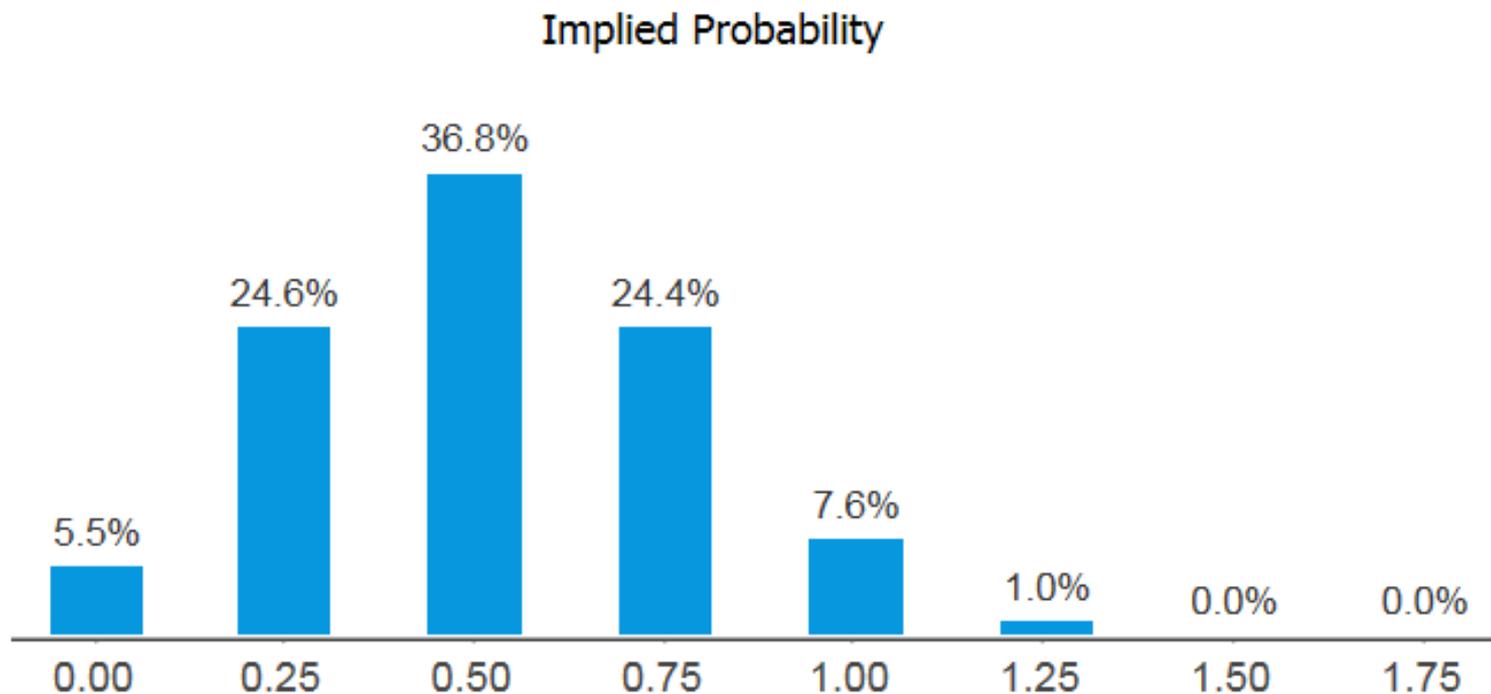
Treasury Forward Yield Curve January 30, 2015



Probably of Rate Hike at July 2015 FOMC Meeting Based on 9/29/14 Futures Prices

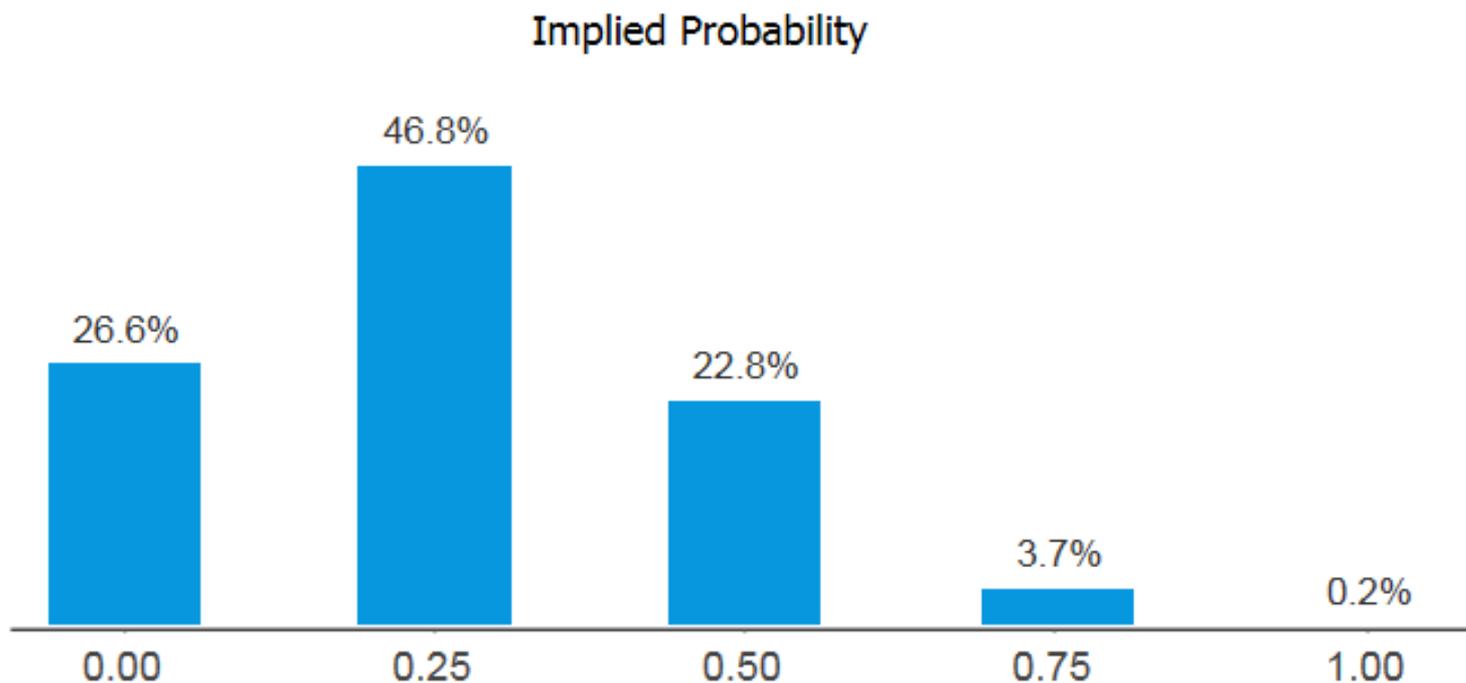


Meeting Date:	Wednesday, July 29, 2015		
Futures Expiry:	July 2015	Previous Day	
Futures Price:	99.6500	Volume:	3,079
Probability of Rate Hike:	70%	Open Interest:	40,920



Probably of Rate Hike at July 2015 FOMC Meeting Based on 2/2/15 Futures Prices

Meeting Date:	Wednesday, July 29, 2015		
Futures Expiry:	July 2015	Previous Day	
Futures Price:	99.8000	Volume:	14,747
Probability of Rate Hike:	27%	Open Interest:	91,812

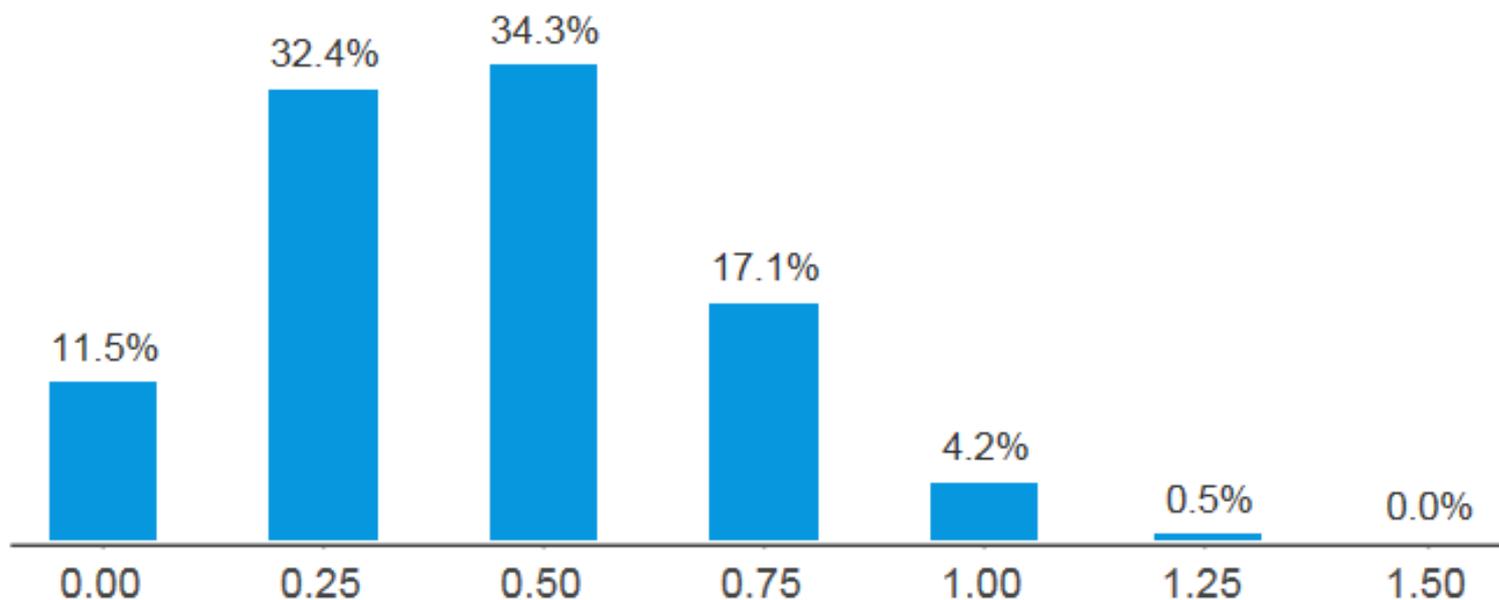


Probably of Rate Hike at October 2015 FOMC Meeting Based on 2/2/15 Futures Prices



Meeting Date:	Sunday, October 25, 2015		
Futures Expiry:	October 2015	Previous Day	
Futures Price:	99.6850	Volume:	3,590
Probability of Rate Hike:	56%	Open Interest:	30,384

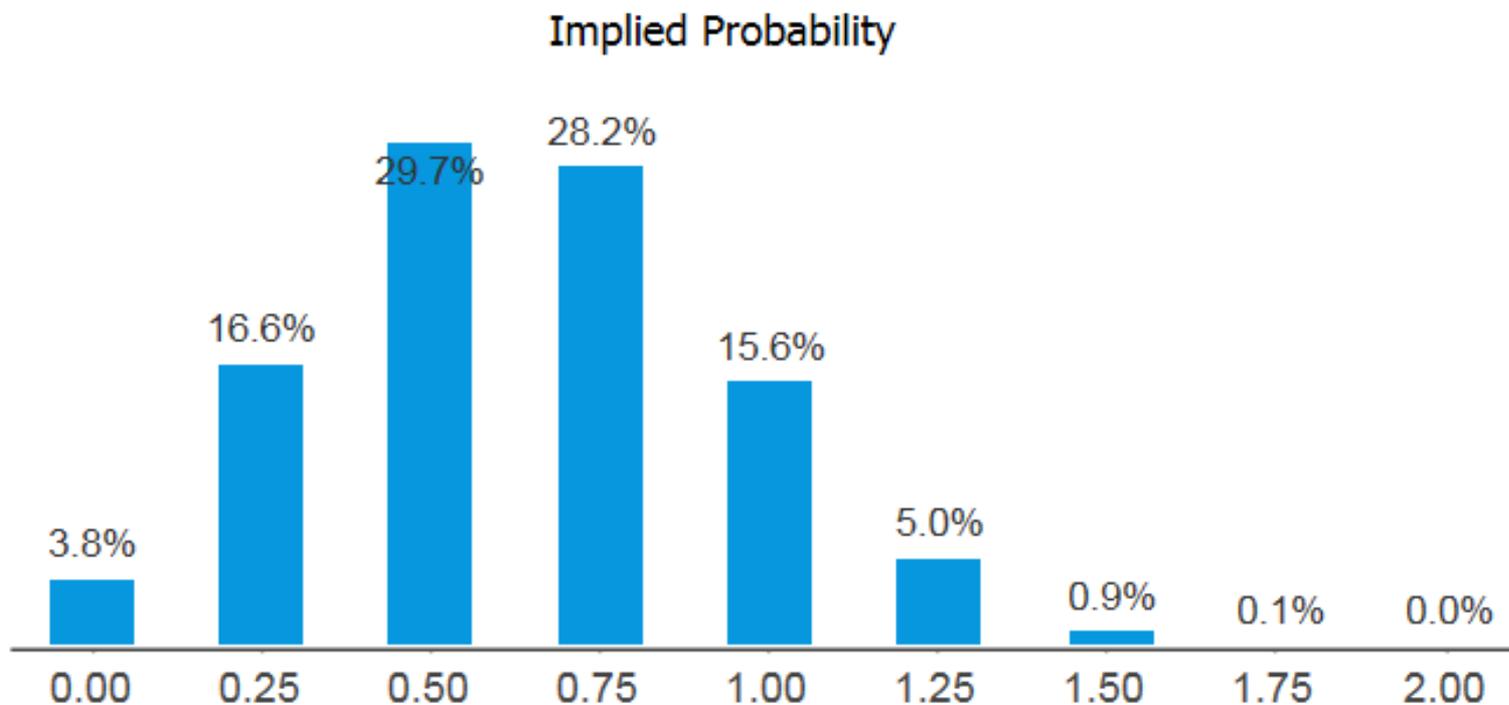
Implied Probability



Probably of Rate Hike at January 2016 FOMC Meeting Based on 2/2/15 Futures Prices



Meeting Date:	Wednesday, January 27, 2016		
Futures Expiry:	January 2016	Previous Day	
Futures Price:	99.5400	Volume:	2,957
Probability of Rate Hike:	80%	Open Interest:	22,904



St. Louis Fed President James Bullard

Federal Reserve Bank of St. Louis President James Bullard said investors are wrong to expect the Fed to postpone an interest-rate increase beyond midyear, with the U.S. economy leading global growth and unemployment dropping.

“The market has a more dovish view of what the Fed is going to do than the Fed itself,” Bullard said in an interview Friday in New York. “Markets should take it at face value” from the Fed’s rate projections, and it’s “reasonable” to expect an increase in June or July.

- Bloomberg Business, January 30, 2015

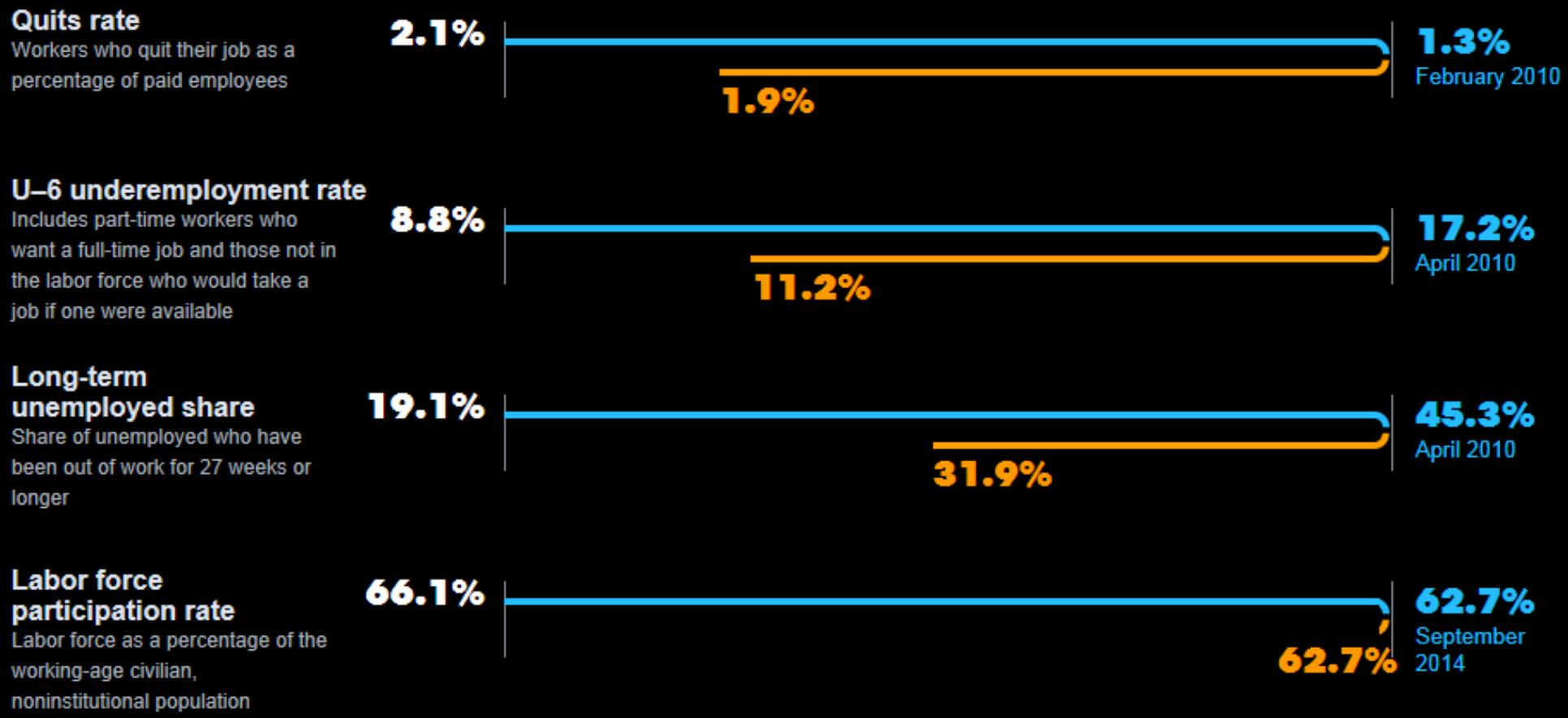
Interest Rate Outlook – Summary

- Fed’s forward guidance is that the Fed will be “patient” in normalizing the policy stance with a rate hike
- FOMC projections suggest a 100 bps increase in fed funds rate by the end of 2015
 - Treasury forward curve anticipates a smaller rate hike
 - Futures market anticipates rate hike in 4Q
 - Market expecting substantial curve flattening over the next year
- Some fed officials guiding the market to take Fed projections at “face value”

Mixed Signals from Yellen's "Labor Market Dashboard"



Mixed Signals from Yellen's "Labor Market Dashboard"



What Explains the Decline in Labor Force Participation Rate?

	<i>Men</i>		<i>Women</i>	
	<i>Lower half</i>	<i>Upper half</i>	<i>Lower half</i>	<i>Upper half</i>
Teenagers	-7.1	-15.6	-8.8	-15.9
20 to 34	-4.4	-4.7	-1.9	-3.8
35 to 59	1.4	-1.7	0.4	-0.9
60+	4.7	2.8	3.9	8.9

Table 1: Changes in Labor-Force Participation Rates by Age, Sex, and Family Income, from 1998-2000 to 2011-2013

[A] study of the data on the decline does not suggest the desirability of policy changes focusing on reversing the decline.

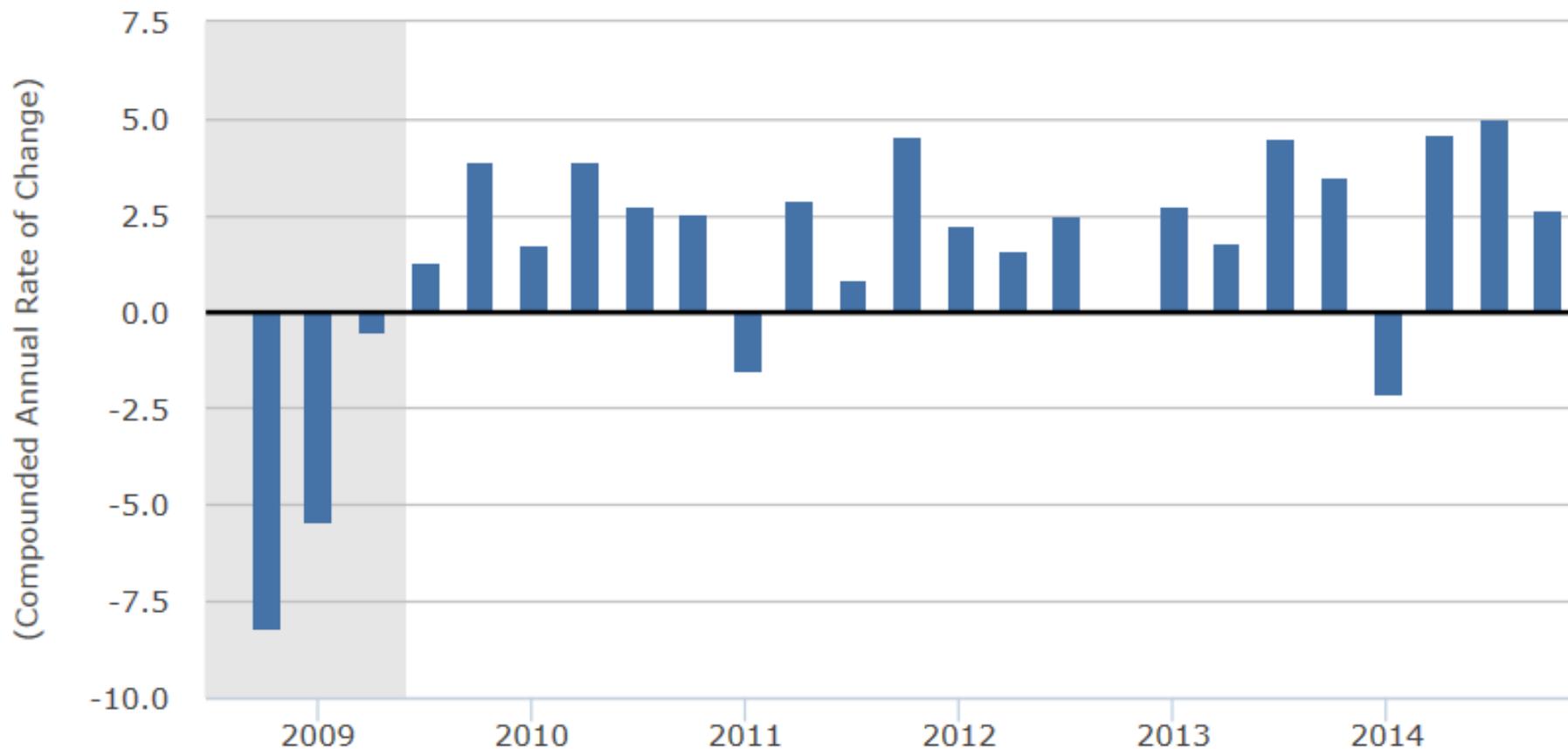
Robert E. Hall Testimony before the U.S. Senate Committee on Finance
January 22, 2015

U.S. GDP, adjusted for inflation

4Q 2014 Growth of 2.6%

FRED 

■ Real Gross Domestic Product



Drivers of 4Q 2014 GDP Growth

1. Solid consumer spending, up 4.3%
2. Weak business investment, up 1.9%
3. Drag from government spending, down 2.2%
4. Drag from net exports, down 2.2%

Going forward:

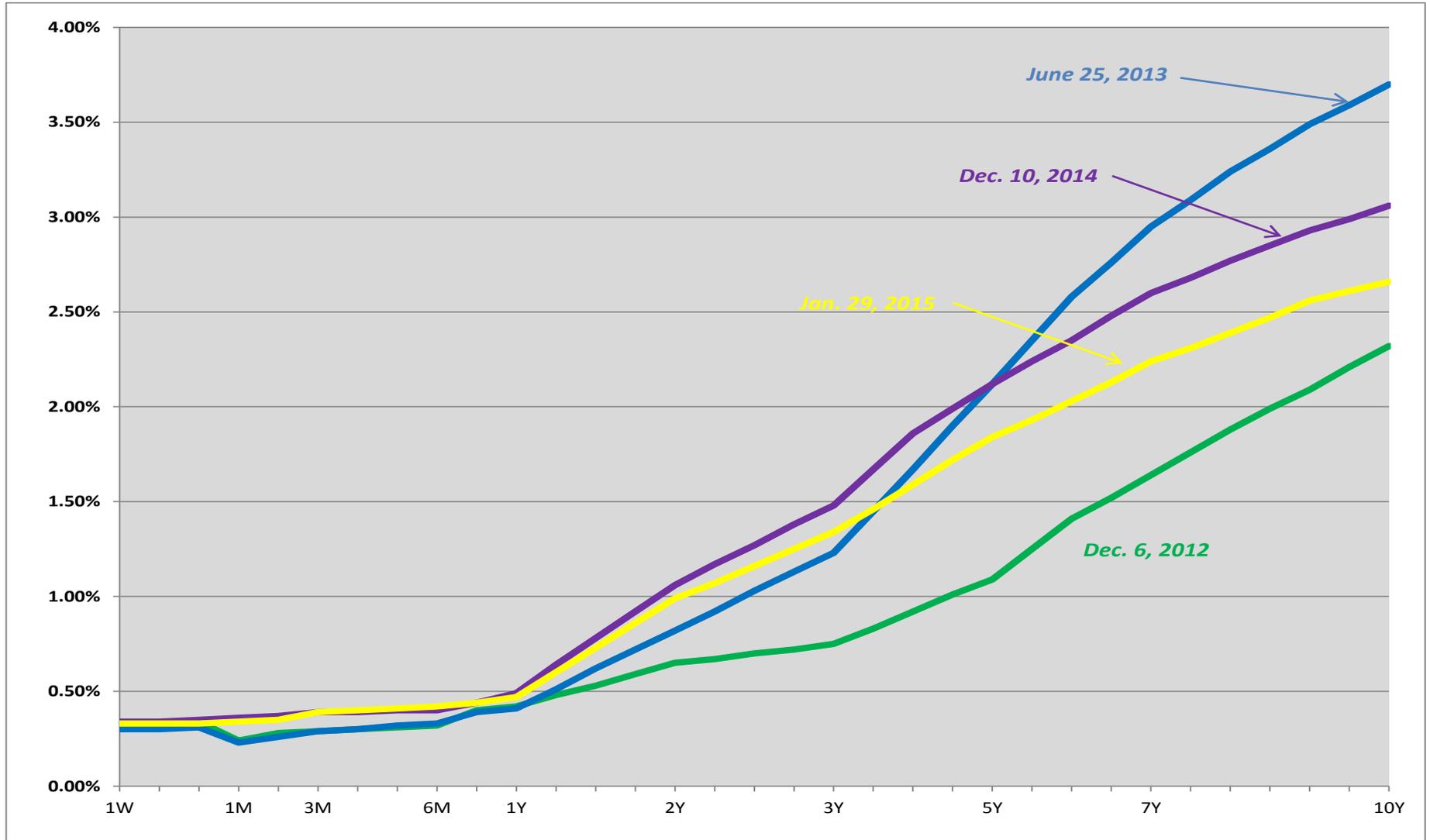
- Boost to consumption from oil price drop?
- Boost to consumption from housing and stock markets?
- European economy re-entering recession?

Economic Outlook Summary

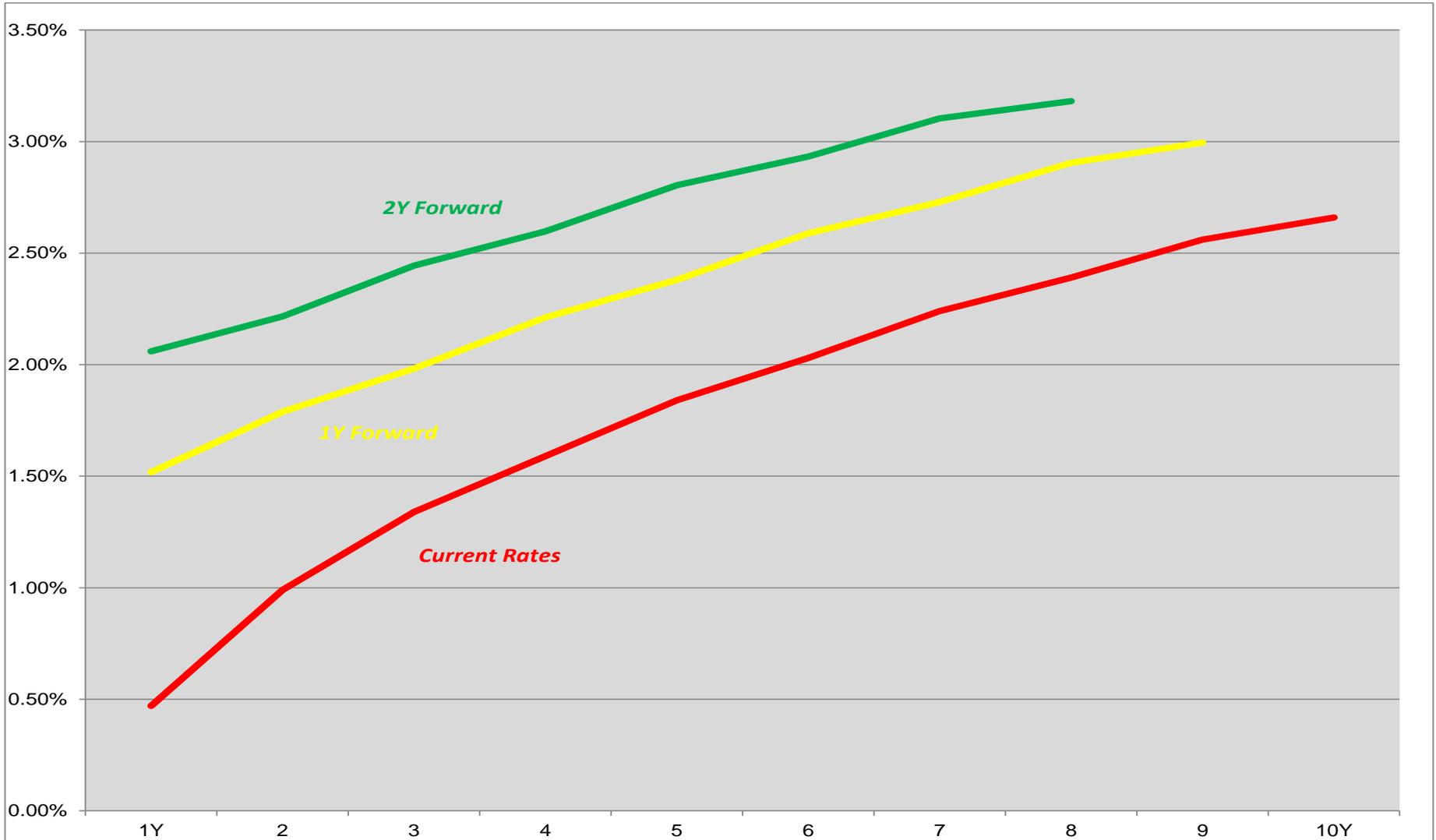


- Majority of labor market indicators are strong and suggest a continuing a positive trend
- Two contrary indicators:
 - A substantially lower labor force participation rate than before the recession
 - Weak wage growth
- GDP signals are mixed
 - Very strong 2Q and 3Q followed by a weaker 4Q report
 - Strong 4Q consumption growth positive for continuing growth
 - Reversal of defense spending decline would help improve GDP growth

FHLB Boston Advance Rates



FHLB Boston – Implied Forward Advance Rates



Forward Starting Advance

- Available on our Classic and Amortizing advances
 - Typical settlement is two days or less
- Settlement can be any date up to two years in the future
 - Lock in a known fixed rate today for future disbursement
- Interest begins to accrue when funds are disbursed
 - No collateralization or activity-based stock requirement until disbursement
- Mandatory take down; it is not an option
- \$10 million minimum; but requests for lesser amounts may be aggregated

Why Use Forward-Starting Advances?

- Rates are near historic lows—lock them in now
- Have ample liquidity
- Protect against rising interest rates
- Deposit balances may shrink as rates rise and competitive alternatives offer higher yields
- Fund future loan growth
- Prefund maturing advances and/or Brokered CDs
- Lock-in rates for commercial loan customers on future loan commitments
- Continue to benefit from inexpensive, short-term funding, but lock in a long-term rate for future disbursement

Forward Stating Advance Indications



Settle Date	3 Year Term	5 Year Term
7/30/2015	1.68%	2.12%
1/30/2016	1.97%	2.36%

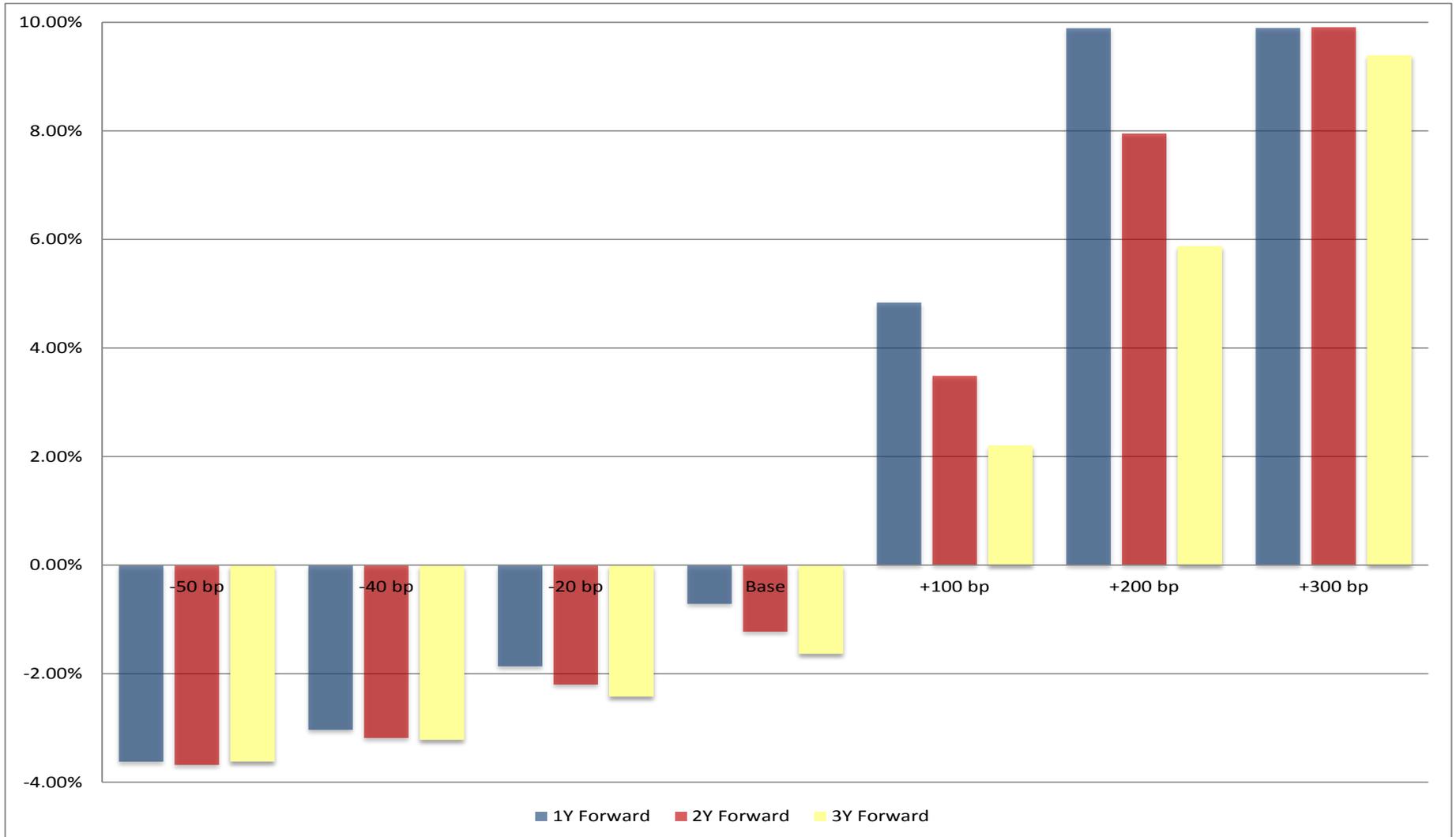
Symmetrical Prepayment Advance

- Fixed-term, fixed-rate, non-amortizing advance
- Usually priced 2 basis points over the Classic advance
- Special prepayment feature that allows the member to prepay the advance at its approximate market value
 - Potential to monetize a gain in a rising rate scenario
 - Lower prepayment fee than corresponding Classic advance in all rate scenarios

Symmetrical Prepayment Advance – Estimated Prepay Fees



7 Year Symmetrical Prepayment advance@ 2.27%



Expander Advance

- Fixed-term, fixed-rate, non-amortizing advance
- One-time opportunity to increase principal amount of advance by 100% of the original amount at the same rate
- Member chooses final maturity term and one-time expansion date
 - Maturities available from two- to 20-years
 - Expansion date between one- and 10-years from disbursement date

How it Works – Expander Advance 5Y/2Y

- 5-year/2-year Expander advance for \$10 million at 2.20%
 - The advance has a 5-year maturity and a 2-year expansion option date
 - Member has \$10 million advance for 5 years at 2.20%
 - The ‘embedded option’ allows the member to borrow an additional \$10 million on the second anniversary date of disbursement for the remaining 3-year term at the same 2.20% rate

- 5-year/1-year Expander advance for \$10 million at 2.12%

Note: 5-year Classic advance rate 1.84%

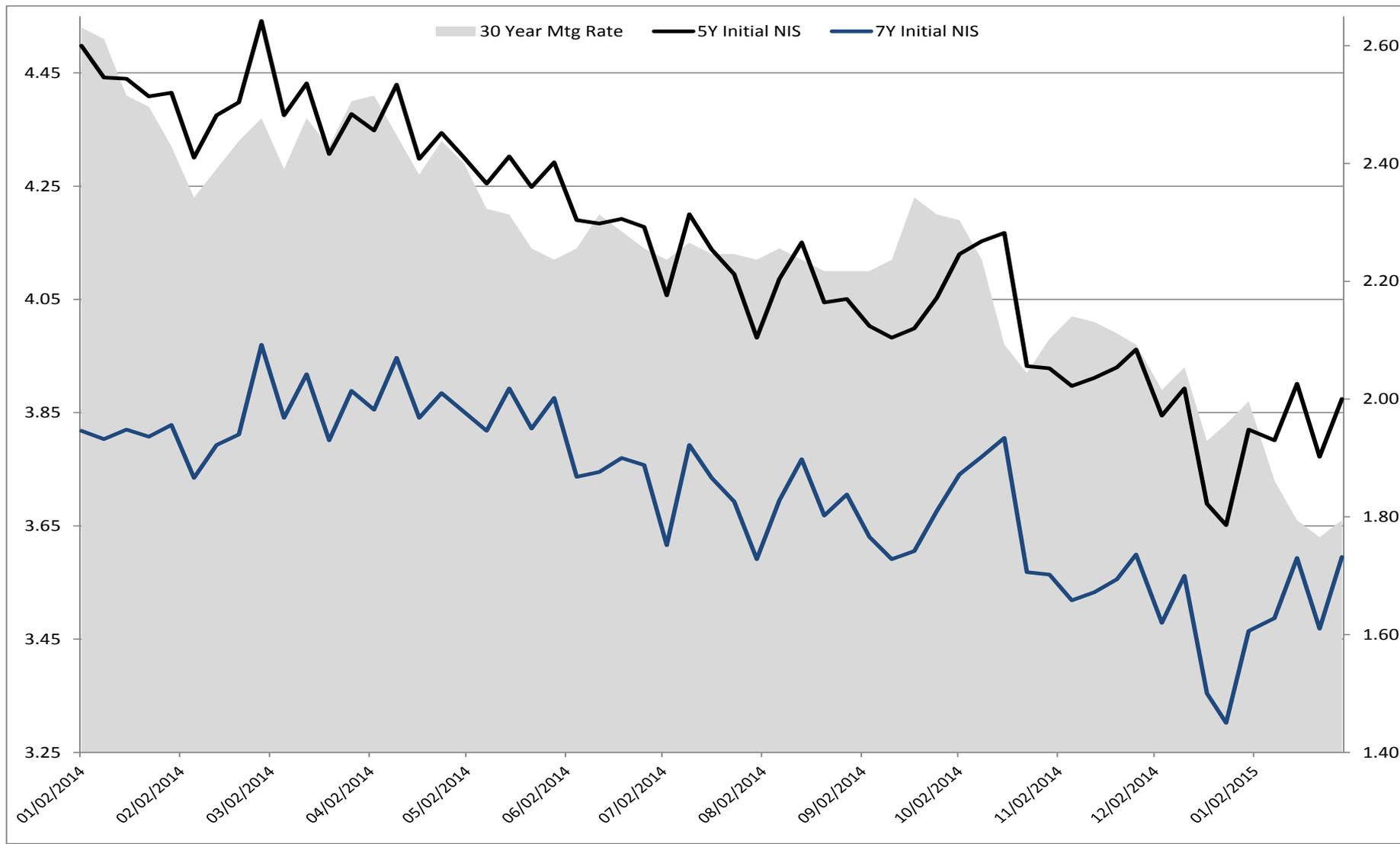
4-year Classic advance rate 1.59%

3-year Classic advance rate 1.34%

2-year Classic advance rate 0.99%

1-year Classic advance rate 0.47%

30 Year Mortgage Strategy Spreads



Upcoming Special

- Friday, February 6, 2015 from 10 am until 10:45 am
- Dutch auction format
 - Members call in with a firm commitment bid
 - Immediately after the auction window closes, Bank determines a clearing rate
 - All bids equal to or higher than the clearing rate receive execution at the clearing rate
 - All bids lower than the clearing rate are not executed
 - Members receive a call back with confirmation of execution or a notice of no execution
- Maturities on offer to be announced soon via email
- Please contact the Money Desk 800-357-3452

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