



Weekly Market Update

Hosted by:

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FHLB  Chicago
Federal Home Loan Bank of Chicago

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Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases for the Prior Week
- Federal Reserve Beige Book
- Inflation
- Preview of the Coming Week
- Q and A

Weekly Interest Rate Movements

For the Week Ending 03/08/2018

U.S. Treasury Yields

	03/08/18	03/01/18
3mo	1.65%	1.60%
2yr	2.25%	2.21%
5yr	2.64%	2.58%
10yr	2.87%	2.81%

U.S. Treasury Yield Curve



FHLBC Advance Rates

	03/08/18	03/01/18
3mo	1.88%	1.85%
2yr	2.48%	2.46%
5yr	2.86%	2.84%
10yr	3.30%	3.28%

FHLBC Advance Rates

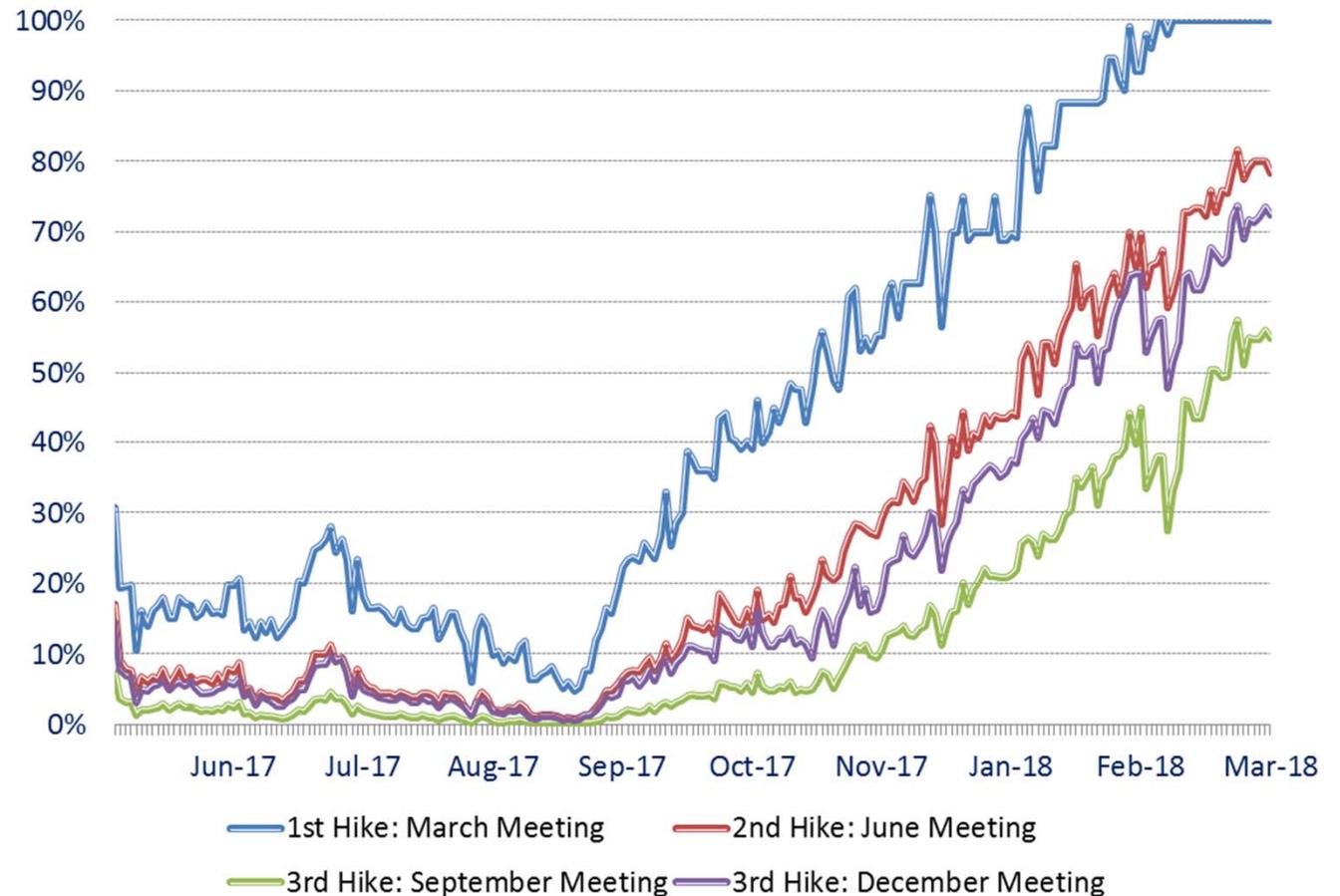


Federal Reserve Interest Rate Probability

The probability of a 25 basis point increase at the March meeting has held steady at 100% since mid-February.

If the central bank does hike rates in March, the probability of a second rate hike in 2018 is 78% at its June meeting.

Federal Reserve Interest Rate Hike Probability in Percentage, Probability of a 25 Basis Point Increase



Source: Federal Reserve, FHLBC Calculations

U.S. Economic Data Releases

For the Week Ending 03/08/2018

ISM Non-Manufacturing Index

February: 59.5 vs. January: 59.9

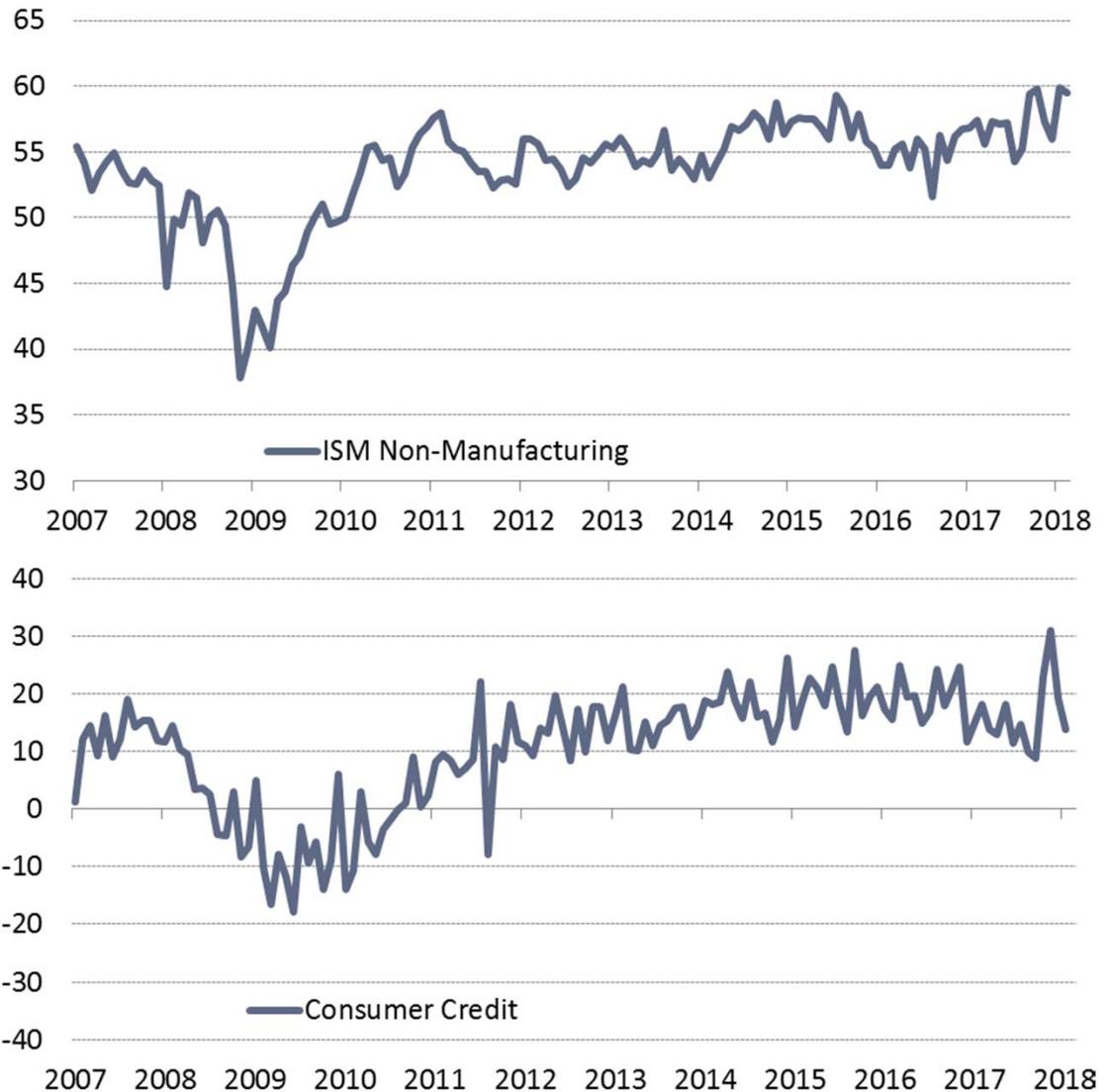
- Fell 0.4 percentage points to 59.5 in February. A 6.6 percentage point decline in employment weighed on the index but was slightly offset by measurements of inventories and business activity increasing 4.5 and 3.0 percentage points respectively. Overall, the sector has expanded for 97 straight months.

Consumer Credit

January: \$13.9B vs. December: \$18.4B

- Rose a lower-than-expected \$13.9B in January, missing consensus expectations of \$18.4B. Specifically, revolving credit rose \$0.7B and non-revolving credit rose \$13.2B. Overall, consumer credit decreased the past three months.

Source: Institute for Supply Management, Federal Reserve



U.S. Economic Data Releases

For the Week Ending 03/08/2018

Non-Farm Productivity

Q4 Final: 0.0% vs. Preliminary: -0.1%

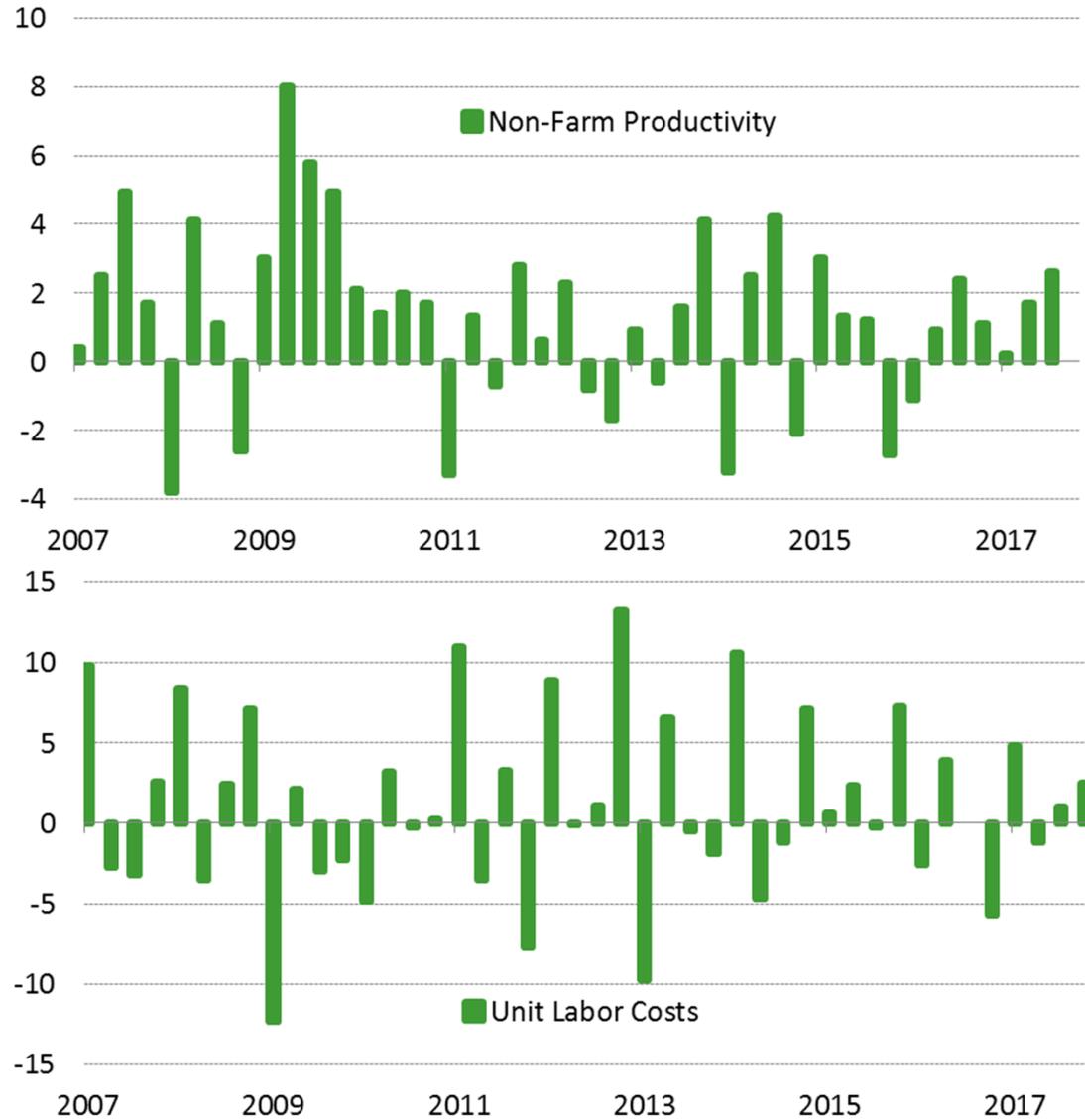
- Revised slightly to 0.0% percent change for Q4 2017 after a preliminary reading of -0.1%. Year-over-year, productivity increased 1.1%, reflecting a 3.2% increase in output and a 2.1% increase in hours worked.

Units Labor Costs

Q4 Final: 2.5% vs. Preliminary: 2.0%

- Increased 2.5% quarter-over-quarter, beating consensus expectations of 2.0%, due to rises in hourly compensation. Annual percentage change rose to 1.7%.

Source: Bureau of Labor Statistics



U.S. Economic Data Releases

For the Week Ending 03/08/2018

Initial Jobless Claims

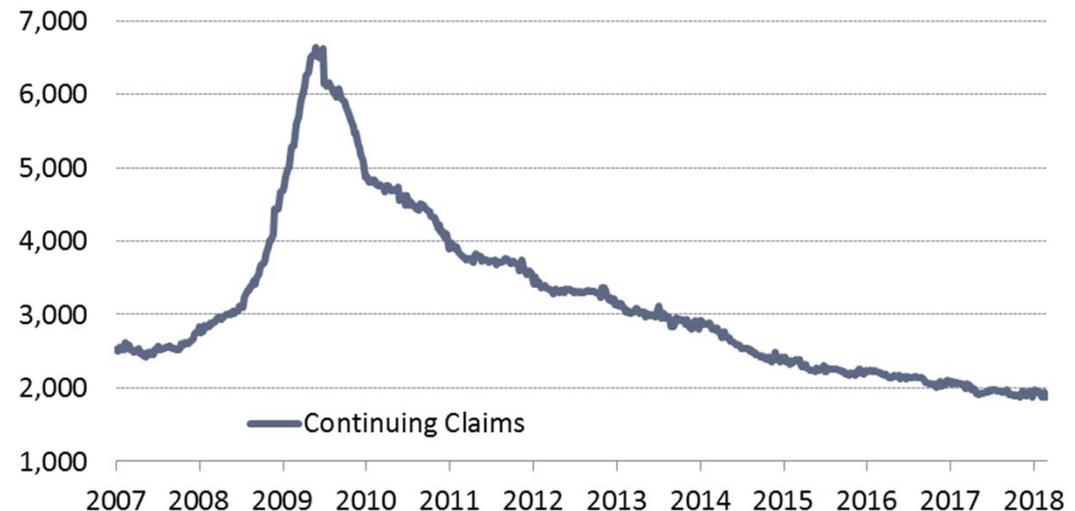
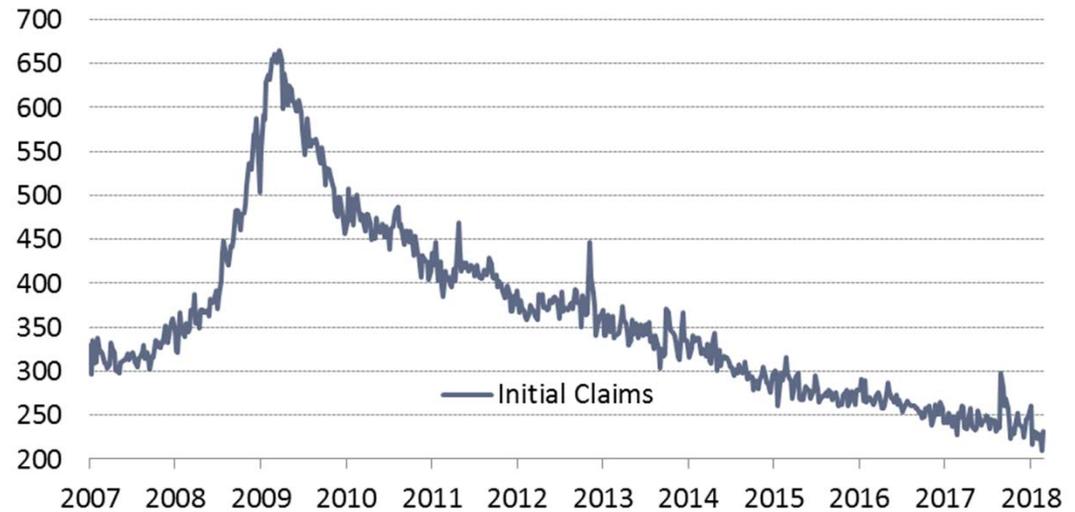
March 3: 231K vs. Feb. 24: 210K

- Claims increased by 21K to 231K, pushing the 4-week moving average up by 2K to 222.5K. The Department of Labor noted collecting data on claims has not returned to normal in Puerto Rico and the Virgin Islands.

Continuing Claims

Feb. 24: 1870K vs. Feb. 17: 1934K

- On the other hand, continuing claims decreased by 64K week-over-week. As a result, the 4-week moving average fell by 14.25K to 1.907M. The insured unemployment rate decreased by one-tenth to 1.3%.



Source: Department of Labor

Federal Reserve Beige Book

The Federal Reserve reported in its Beige Book that economic activity “expanded at a modest to moderate pace across the 12 Federal Reserve Districts in January and February.”

Since the last Beige Book:

- Consumer spending was mixed overall.
 - Non-auto retail sales rose in the majority of Districts, while auto sales edged lower or were unchanged from the previous Beige Book.
- Districts cited modest growth in home sales and construction due to labor shortages.
- Loan volumes were most unchanged from the last reporting period, with several Districts citing a slight decline in delinquency rates.
- Wage growth increased at a moderate pace, with most Districts reporting employers increased wages and expanded benefit packages.

Source: Federal Reserve Board of Governors

Federal Reserve Beige Book

Chicago District:

- Economic activity remained at a moderate pace in January and early February, and contacts anticipated growth to continue at that pace.
- Farmers continued to face challenging conditions.
- Contacts cited strong e-commerce growth.

Minneapolis District:

- The ninth district grew moderately since the last Beige Book.
- A Montana banker said raises were more likely because tax reform “provides a way to pay for increased wages” without increasing prices or reducing profits.

St. Louis District:

- The eighth district reported economic conditions have improved at a modest pace since the previous report.
- Reports from general retailers, auto dealers, and hoteliers depict a mixed picture of consumer spending activity.
- The District reported little to no growth in manufacturing since the last Beige Book.

Source: Federal Reserve Board of Governors

Inflation

- Headline CPI increased a strong 0.5% in January, beating consensus expectations of 0.3%, and the year-over-year rate remains at 2.1%.
 - Excluding food and energy, core CPI increased 0.35% in January and 1.8% over the past 12 months.
- Within the index, transportation rose 0.8% from the prior month, while medical care services grew 0.6%. Further, gas prices increased 5.7%, and apparel reversed its negative trend and also increased 1.7% month-over-month.
- Additionally, the shelter index increased 0.2% as rent and owners' equivalent rent both rose 0.3%, offset by lodging away from home down 2% over the month.

Source: Bureau of Labor Statistics

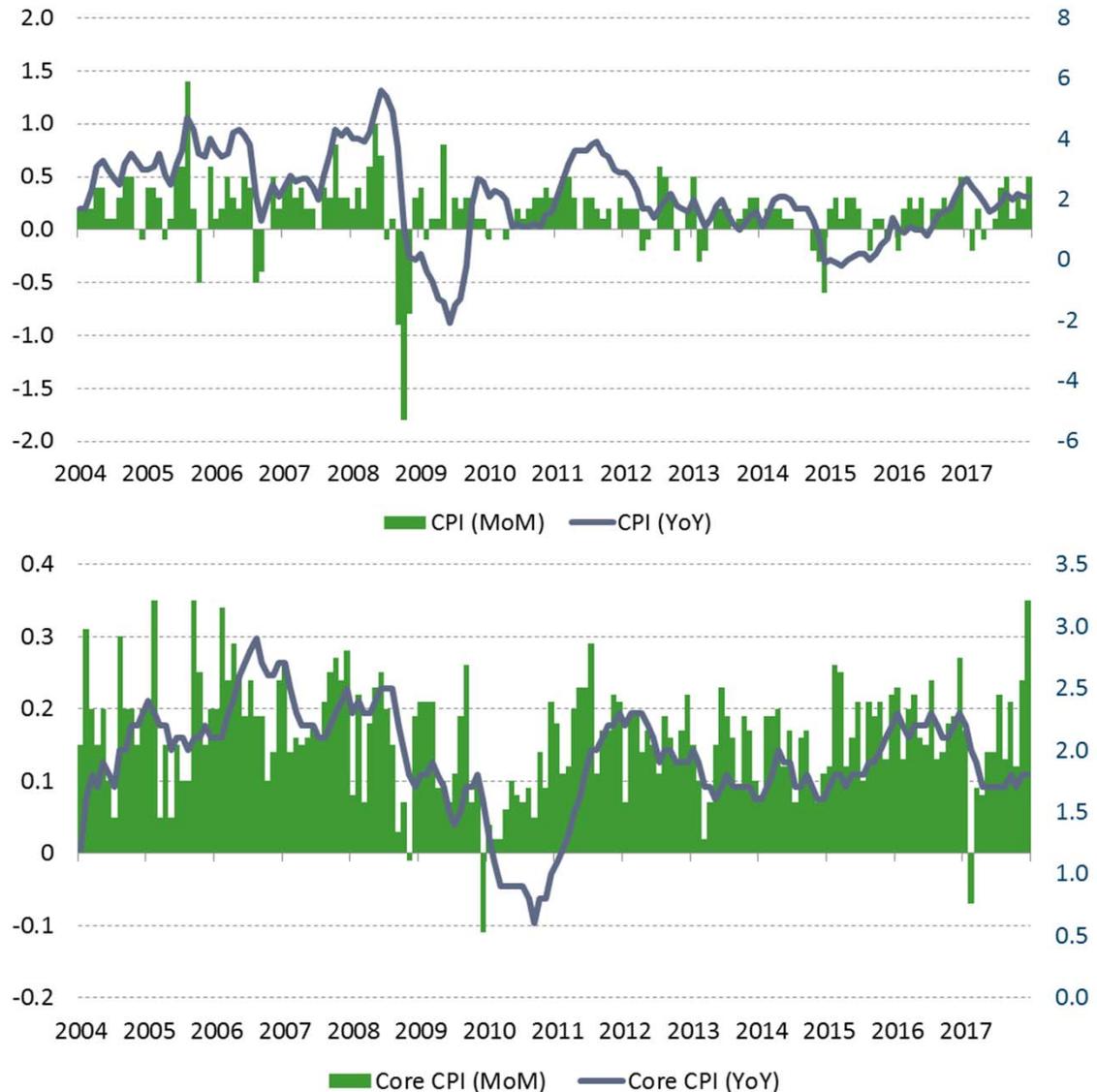
Inflation

The Consumer Price Index Gaining Strength

The headline index rose at the fastest pace since September at 0.5%, but year-over-year, growth has remained flat at 2.1%. The energy index rose 3.0% and food rose 0.2%. The growth was led by gasoline (+5.7%), transportation (+1.8%), and apparel (+1.7%).

Excluding food and energy, the index still rose 0.35%, the strongest monthly increase since March 2005 (+0.35%). Growth was driven by most items, offset by airline fares, lodging, and new vehicles.

Source: Bureau of Labor Statistics



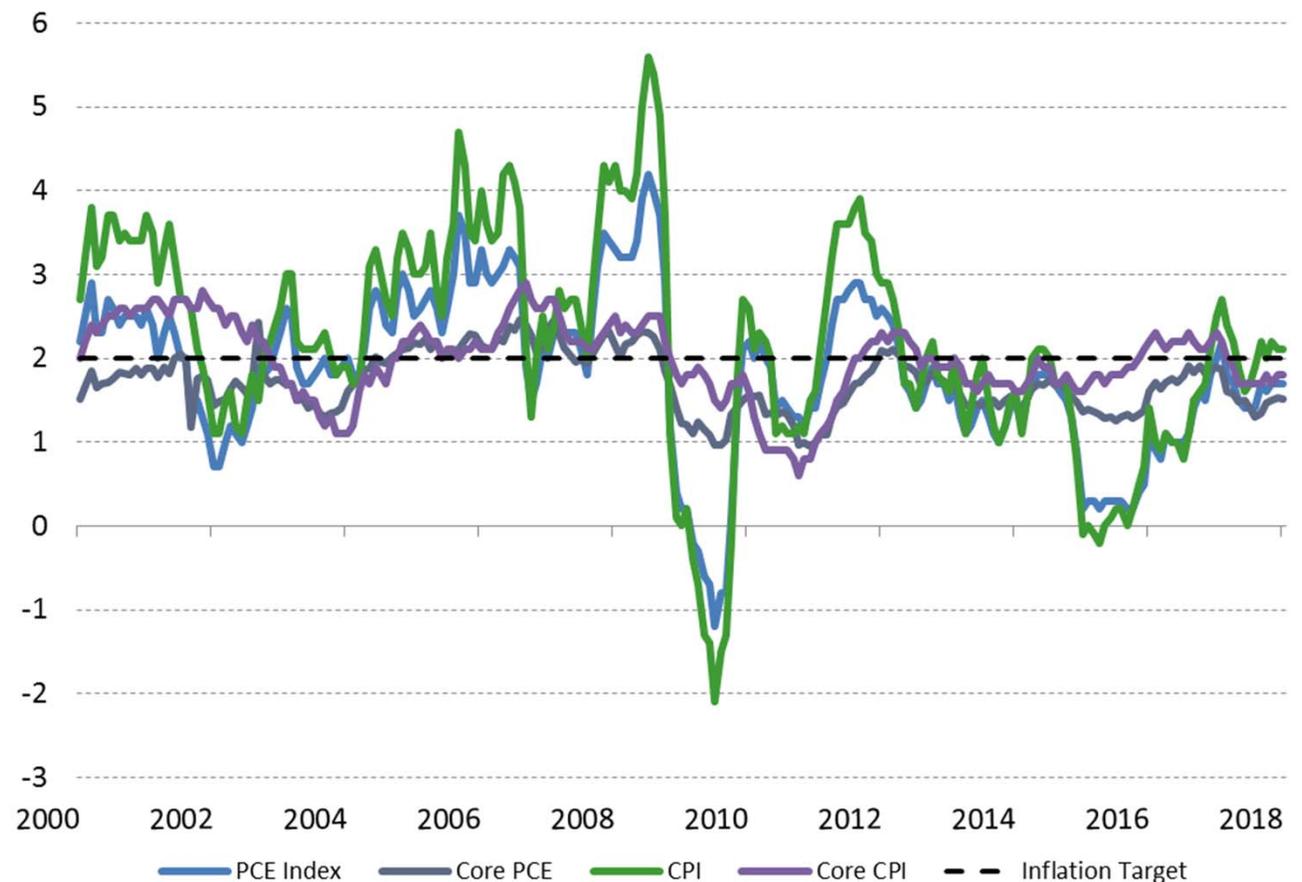
Inflation

Inflation Rate Measures Hover Around Fed's 2% Target

Inflation measures were primarily flat year-over-year, other than Core PCE, which declined slightly from 1.527% to 1.515%.

CPI is the only component to remain above the Fed's 2% target in January. Meanwhile, Core CPI held at 1.8% and PCE Index at 1.7%, both just under the central bank's inflation target.

Inflation Rate Measures Vs. Fed Target of 2.0% Year-over-Year Percentage Change



Source: Bureau of Labor Statistics

Inflation

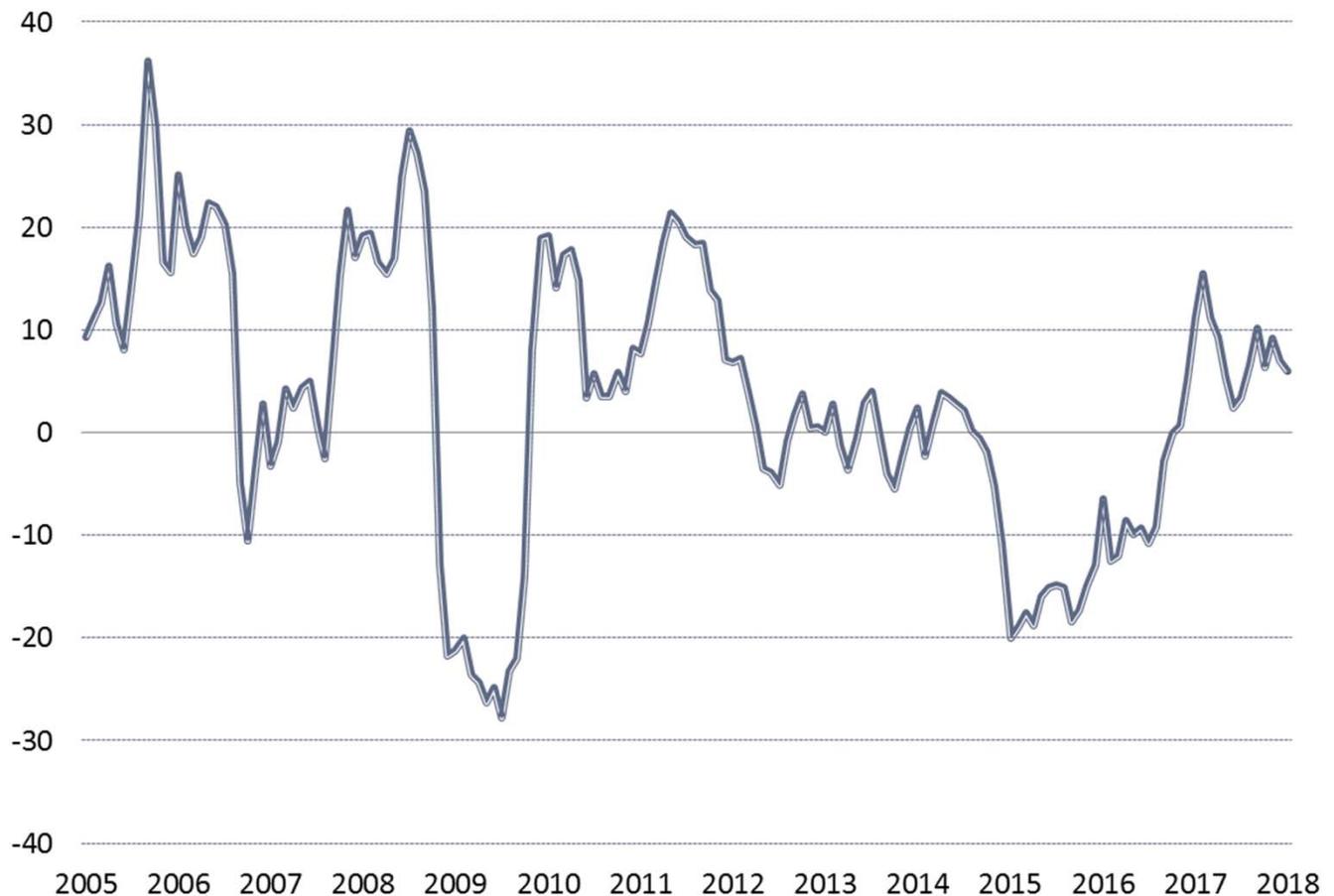
Energy Price Growth Slows Since Early 2017

The energy index rose 3.0% in January, which decreased the annual percentage change down to 5.9%. This is the slowest pace of growth since July.

Within energy prices, gasoline and fuel oil increased for the month while natural gas and electricity fell.

Energy prices have reversed most of the decline seen in 2014.

Energy Prices
Year-over-Year Percentage Change



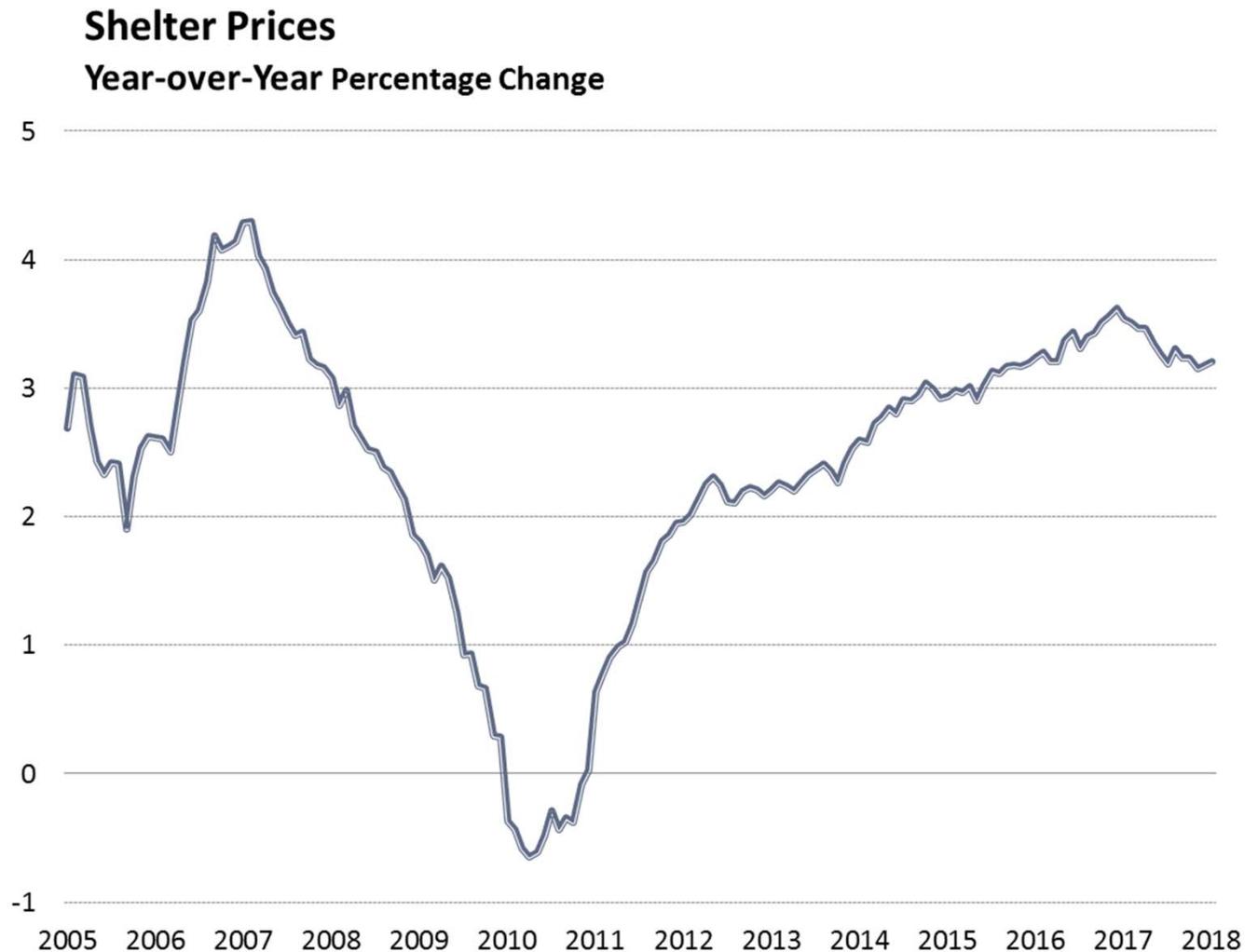
Source: Bureau of Labor Statistics

Inflation

Shelter Prices Support Gain in Core CPI

The shelter index contributed to the 0.3% advance in core CPI. The annual percentage change has remained stable at 3.2% for 5 consecutive years. It has been trending upward since 2010.

Shelter prices rose 0.2% on the month following a 0.3% gain in December. The index for rent and owners' equivalent rent both rose 0.3%.



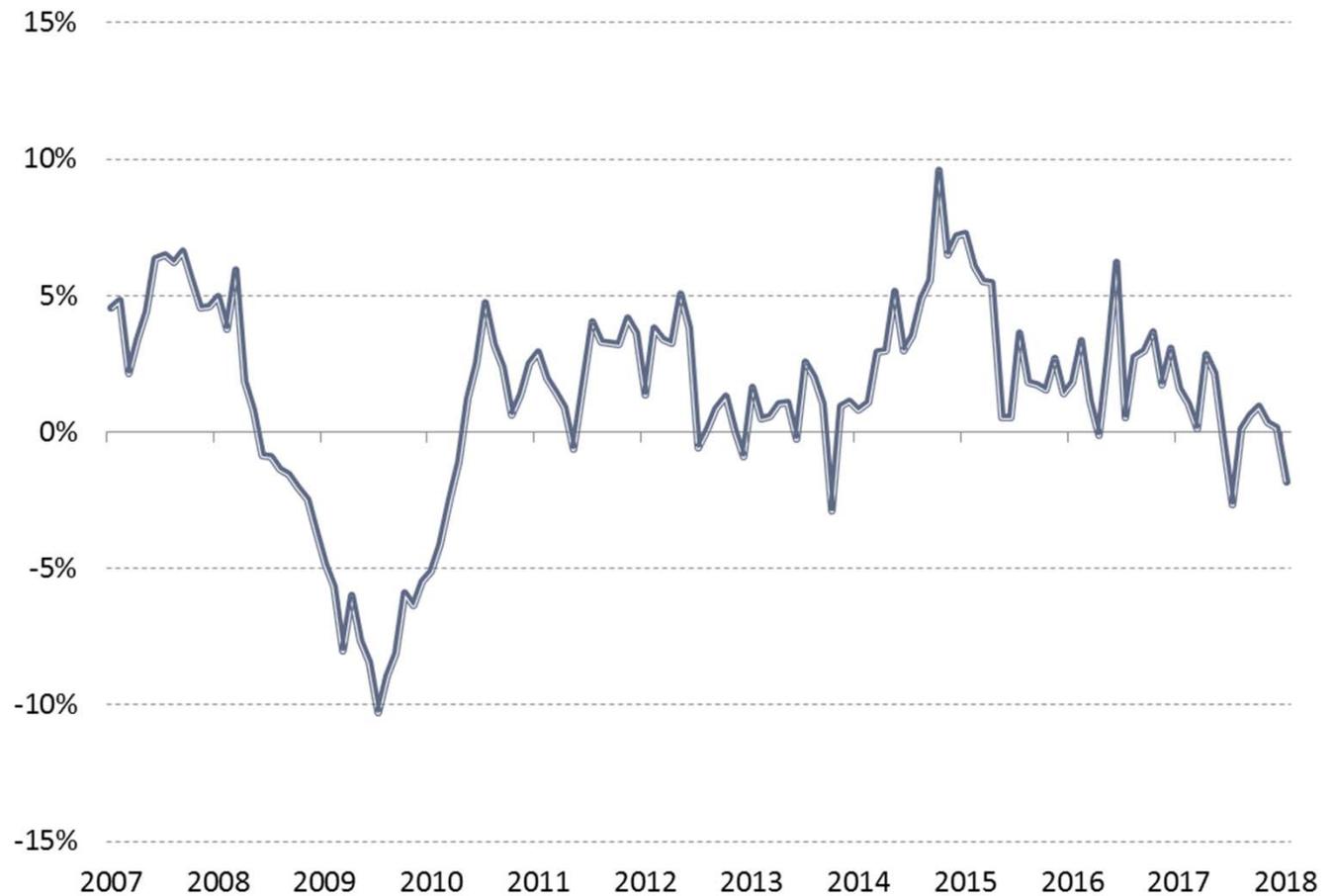
Source: Bureau of Labor Statistics

Inflation

Lodging Away from Home Trends Downward

Within shelter prices, the index measuring lodging away from home, such as hotels and motels, prices retreated 2.0% in January and slid to -1.8% year-over-year.

Lodging Away From Home Prices Year-over-Year Percentage Change



Source: Bureau of Labor Statistics

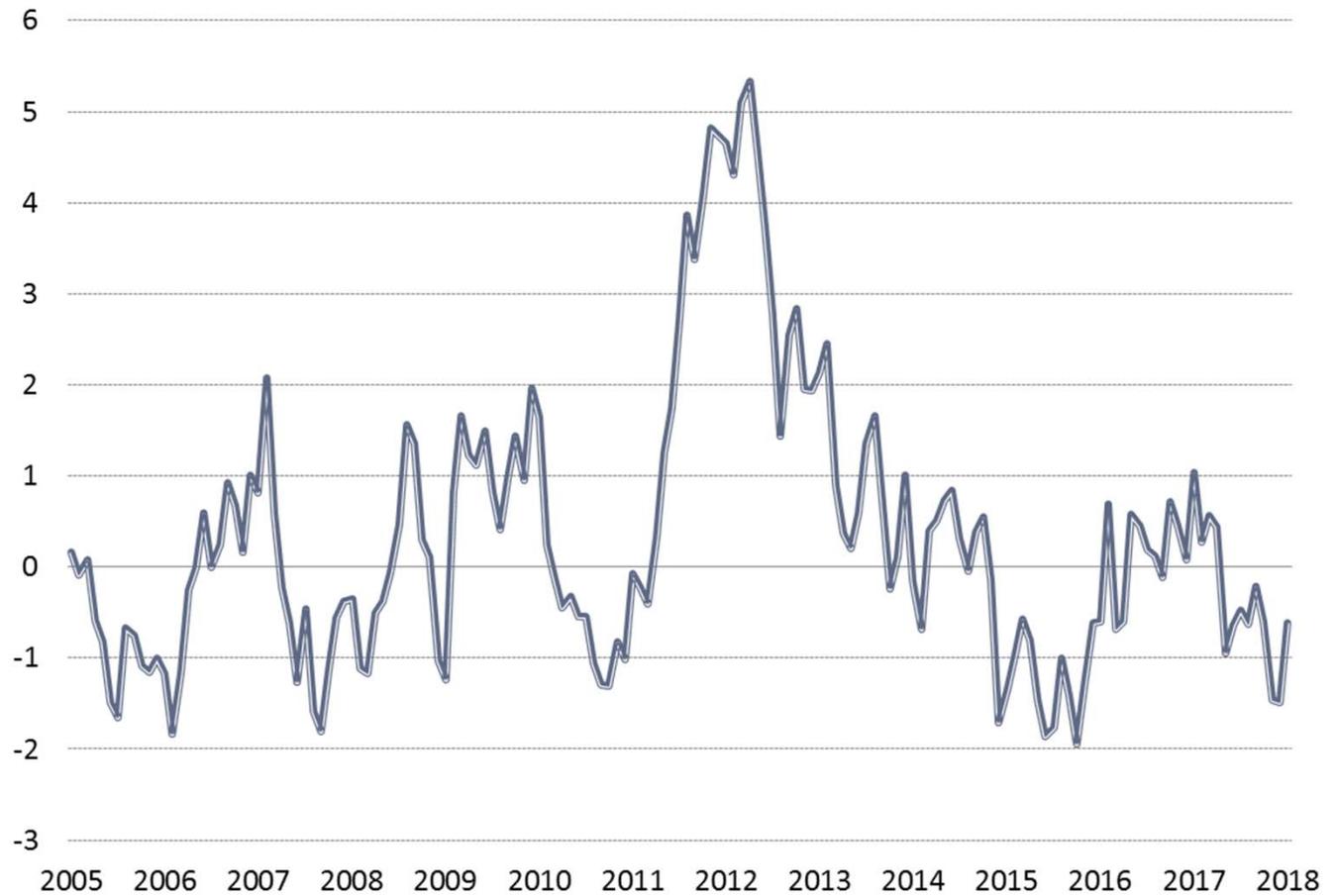
Inflation

Apparel Prices Boost Core Inflation

On the other hand, month-over-month changes in apparel prices supported core CPI in January. Prices advanced 1.7% on the month following a 0.3% decline in December. Specifically, women's clothing surged 3.4%.

After four consecutive months of falling annual percentage change, January's increase has reversed the previous decline.

Apparel Prices
Year-over-Year Percentage Change



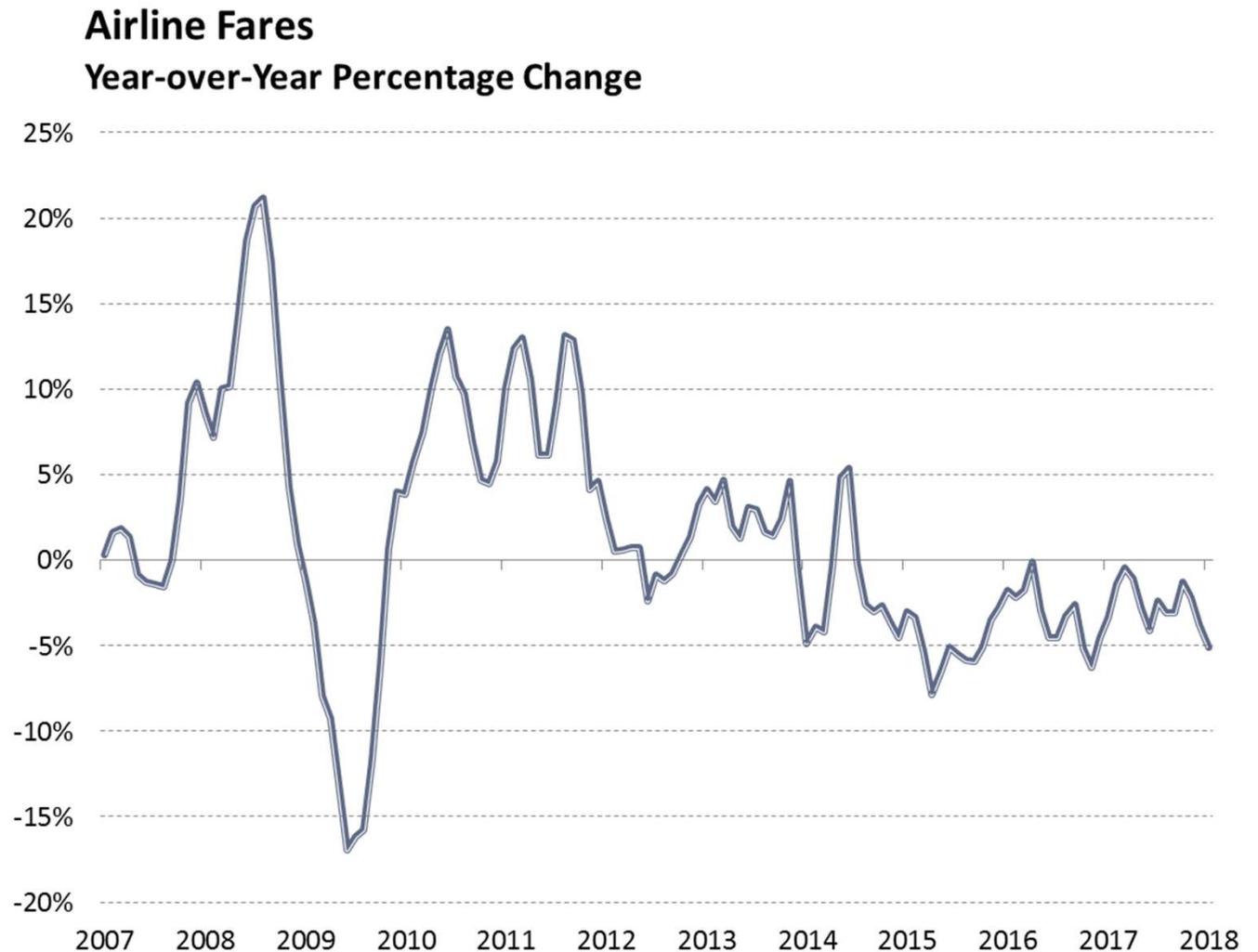
Source: Bureau of Labor Statistics

Inflation

Airline Fares Continue Descent

Within transportation services, airline fares posted a 0.6% negative contribution in January, declining for the second consecutive month.

Consequently, airline fares are down 5.1% from one year ago, the lowest level since November 2016.



Source: Bureau of Labor Statistics

Inflation

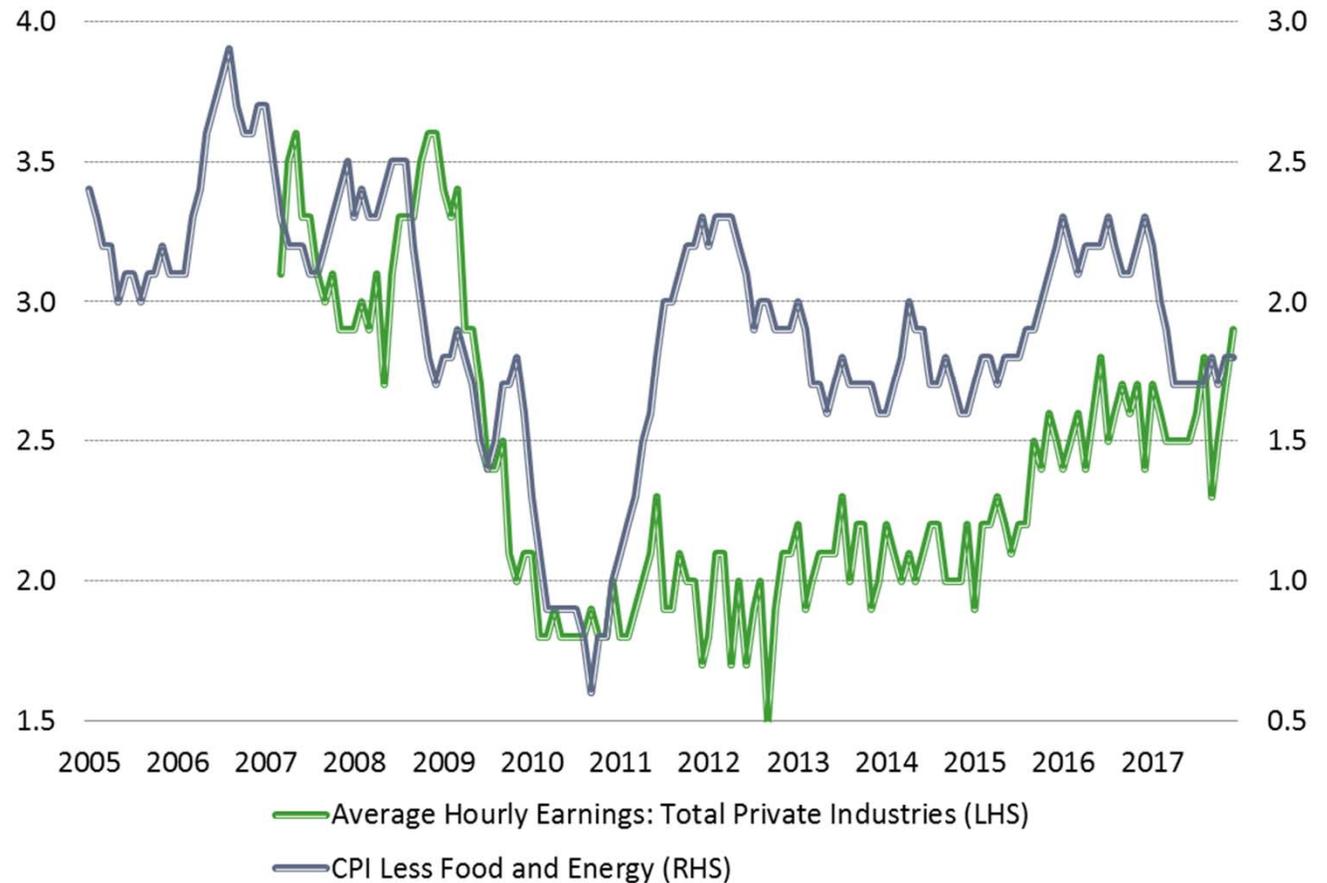
Wage Growth Improves

Wage growth for January hit 2.9%, the highest annual percentage change since June 2009.

Wage growth has been recovering since 2013 overall, although very volatile month-to-month.

Core CPI has remained stable since the decline seen over late 2016. Most recently, inflation's annual percentage change is flat from December to January at 1.8%.

Inflation Vs. Wage Growth
Year-Over-Year Percentage Change



Source: Bureau of Economic Analysis

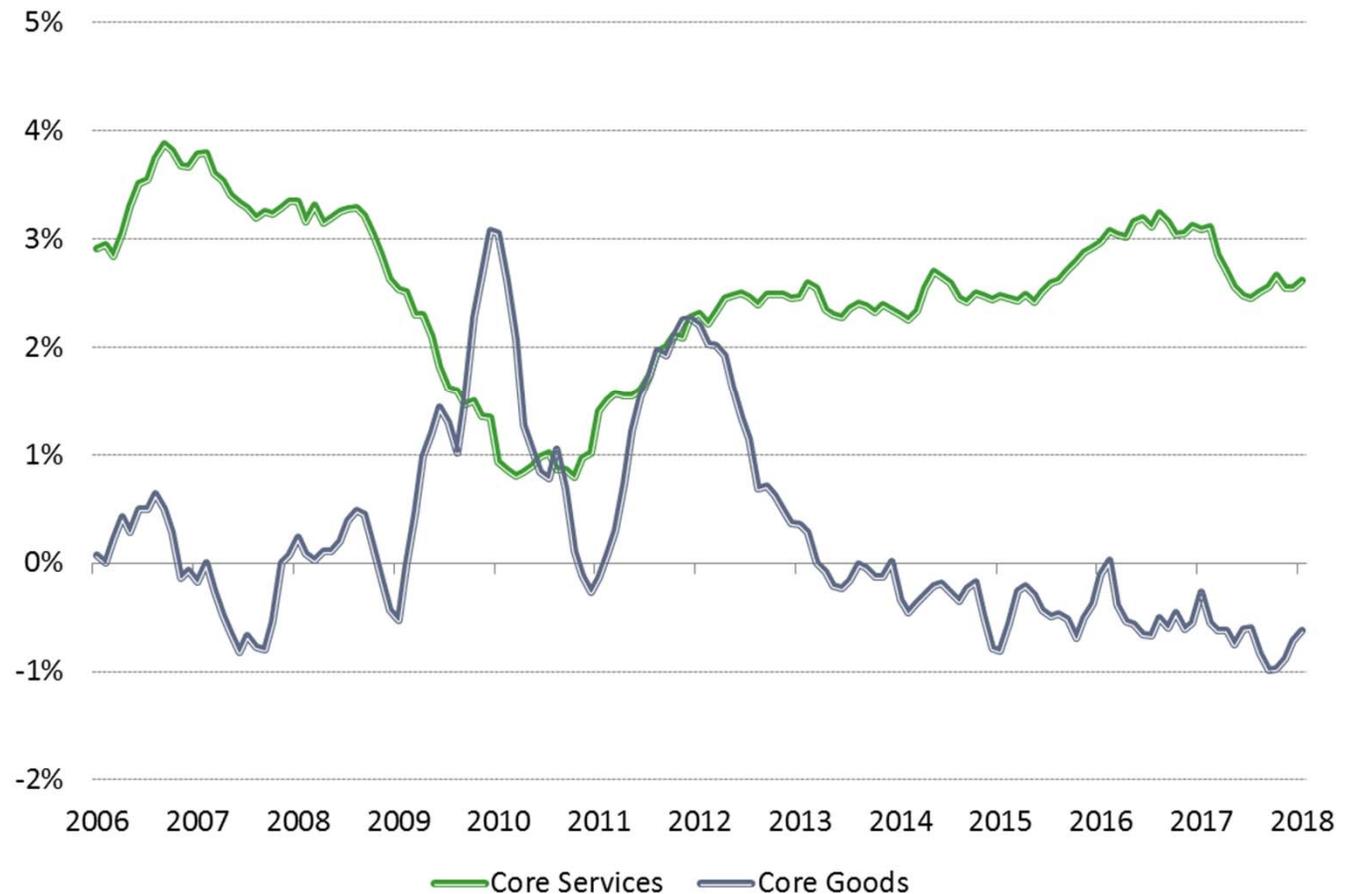
Inflation

Services Inflation Muted While Goods Inflation Remains Weak

Services account for two-thirds of core inflation, while goods account for the remaining one-third of the index. However, it is difficult to measure capacity for components within services, such as housing, health care, and education.

Potential tariffs on steel and aluminum could dramatically affect prices of core goods as the prices of vehicles will likely rise domestically.

Consumer Price Index By Sector
Year-over-Year Percentage Change



Source: Bureau of Economic Analysis

Inflation

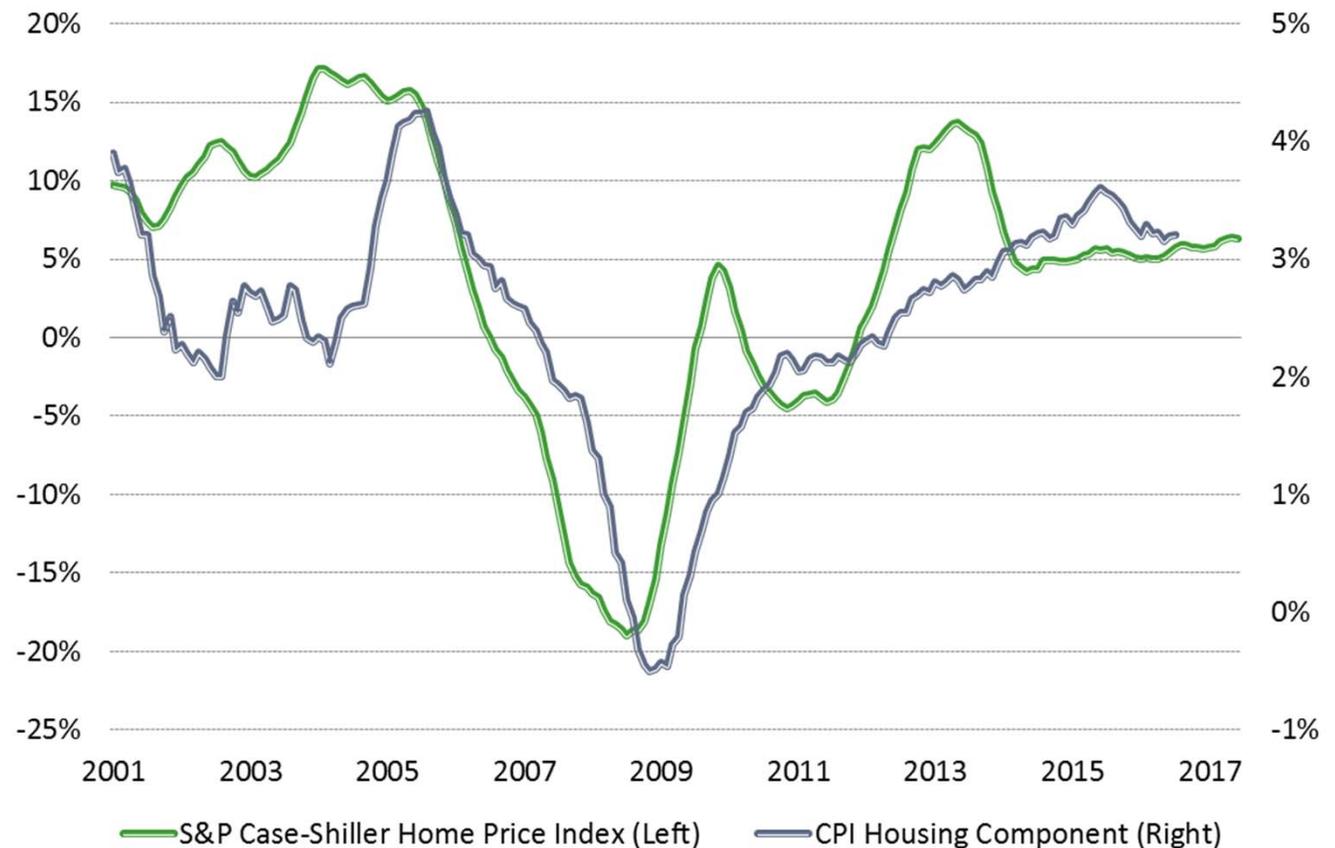
Services Inflation Slips While Goods Inflation Remains Weak

Furthermore, U.S. services inflation is mainly driven by housing. However, lack of housing affordability and falling inventories is slowing growth in the housing market.

Therefore, we may see some downward pressure on the services component of the CPI if these trends continue.

Home Prices Vs. CPI Housing Inflation

Left: YoY Change in Case-Shiller HPI; Right: YoY Change in CPI Shelter Component, Lagged 18 Months



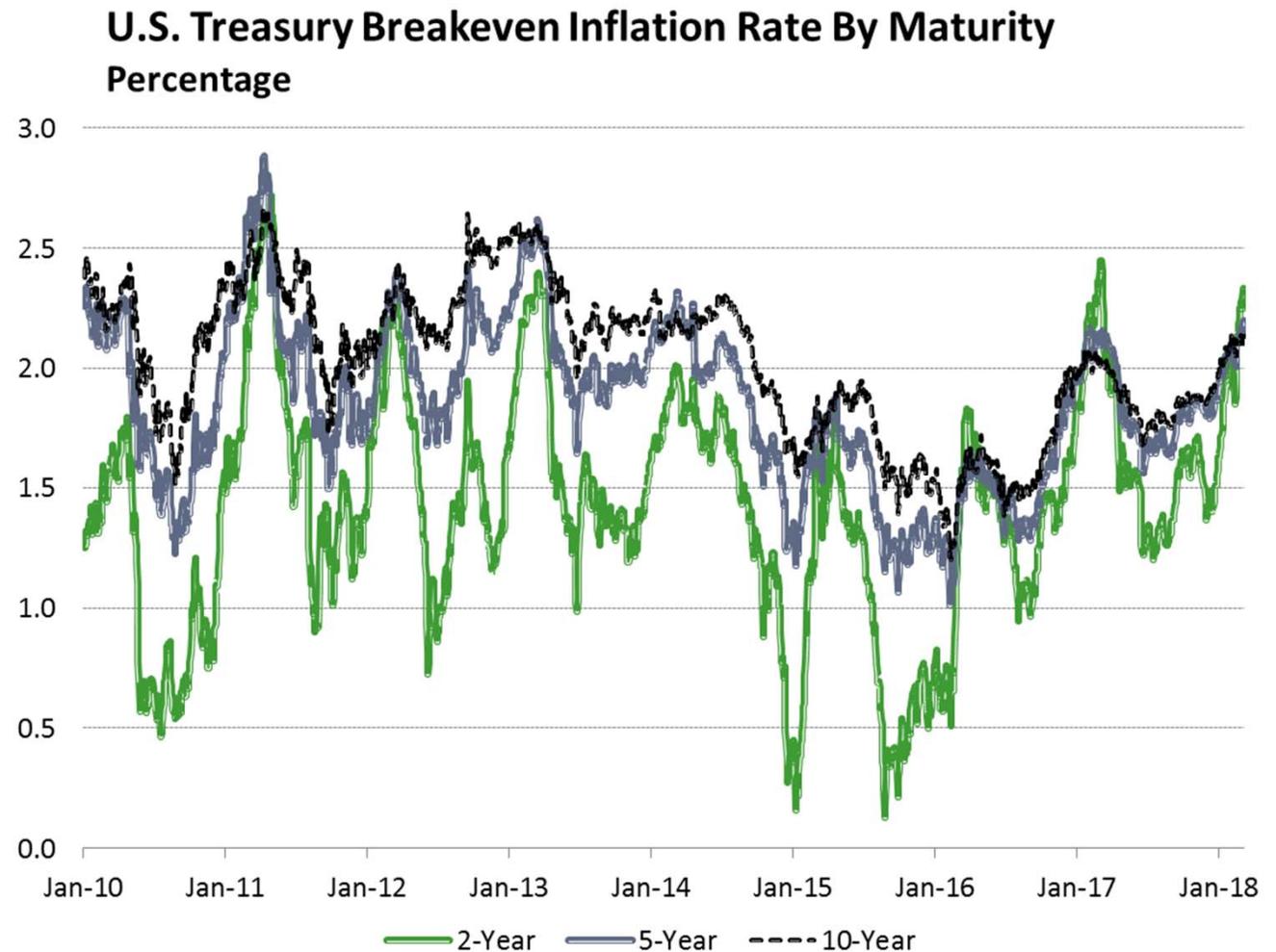
Source: Bureau of Economic Analysis

Inflation

Breakeven Inflation Rates Rapidly Drop

U.S. Treasury breakeven inflation rates point to a pickup in the growth of inflation following a drop off in early 2017.

Specifically, the 2-Year Treasury breakeven inflation rate surpassed the 5-year and 10-year marks.



Source: U.S. Treasury Department, FHLBC Calculations

Inflation

Summary:

- January's strong advance in consumer prices presents a faster pace of acceleration in consumer prices.
- Inflation in goods and services has been minor recently, while stock and housing prices push higher.
- Measuring and defining full capacity for services measurements proves to be difficult.
 - In particular, factors – such as political influences – can dramatically affect health care costs.

Source: Bureau of Economic Analysis

This and That

The Federal Reserve reported consumer credit increased by \$13.906B to \$3.855T in January, its smallest monthly increase in four months. Revolving credit, mostly composed of credit card debt, increased modestly by \$0.7 billion following an \$6.1 billion advance in December. January's increase in revolving debt is its smallest advance since February 2015. Non-revolving debt, comprised of student and auto loans, jumped \$13.2 billion from the prior month. Overall, total consumer credit is up 4.3% year-over-year.

Source: Federal Reserve

Economic Data Release Calendar

March 2018

Prior to the weekend, February's employment report will be released.

Next week is a busy economic data week with numerous inflation-related indicators to be released. Investors will end the week focused on the following Wednesday's FOMC rate decision.

March 2018				
Monday	Tuesday	Wednesday	Thursday	Friday
			1 Initial Jobless Claims Personal Income Total Vehicle Sales Construction Spending ISM Manufacturing	2 Consumer Sentiment
5 ISM Non-Manufacturing	6 Factory Orders	7 MBA Mortgage Applications ADP Employment Consumer Credit Trade Balance Beige Book	8 Initial Jobless Claims	9 Employment
12 Monthly Budget Statement	13 Small Business Optimism Consumer Price Index	14 MBA Mortgage Applications Producer Price Index Retail Sales Business Inventories	15 Initial Jobless Claims Import Price Index NAHB Housing Market Index Total Net TIC Flows	16 Housing Starts Industrial Production Consumer Sentiment JOLTS
19	20	21 MBA Mortgage Applications Existing Home Sales FOMC Rate Decision	22 Initial Jobless Claims FHFA House Price Index	23 Durable Goods New Home Sales
26 Chicago Fed Ntl. Act. Index	27 S&P Case-Shiller HPI	28 MBA Mortgage Applications GDP 3rd Estimate Wholesale Inventories Pending Home Sales	29 Initial Jobless Claims Core PCE Consumer Sentiment	30 Chicago PMI



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