

Interest Rate Forecast

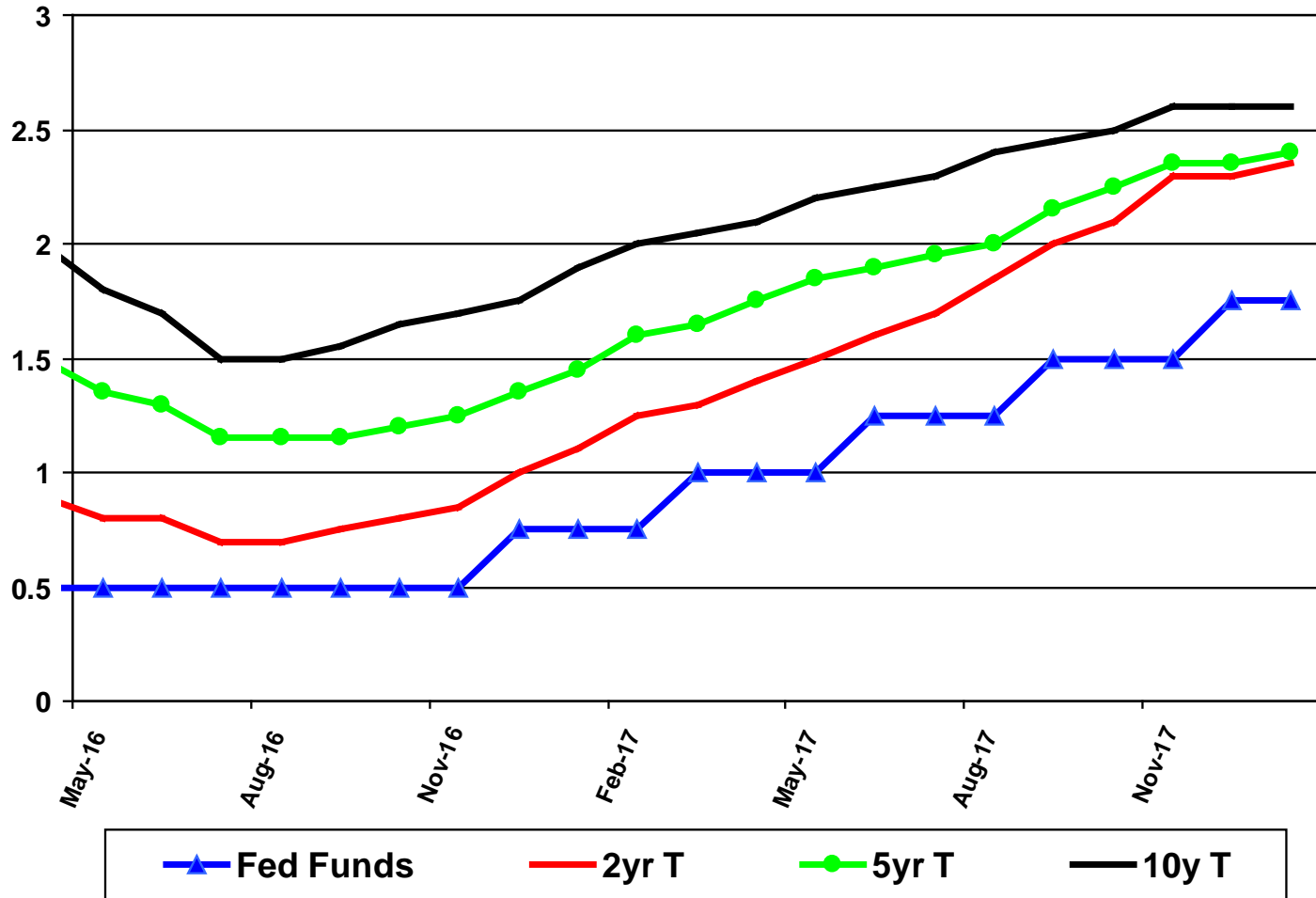
August 2016

D.J.'s ECONOMIX

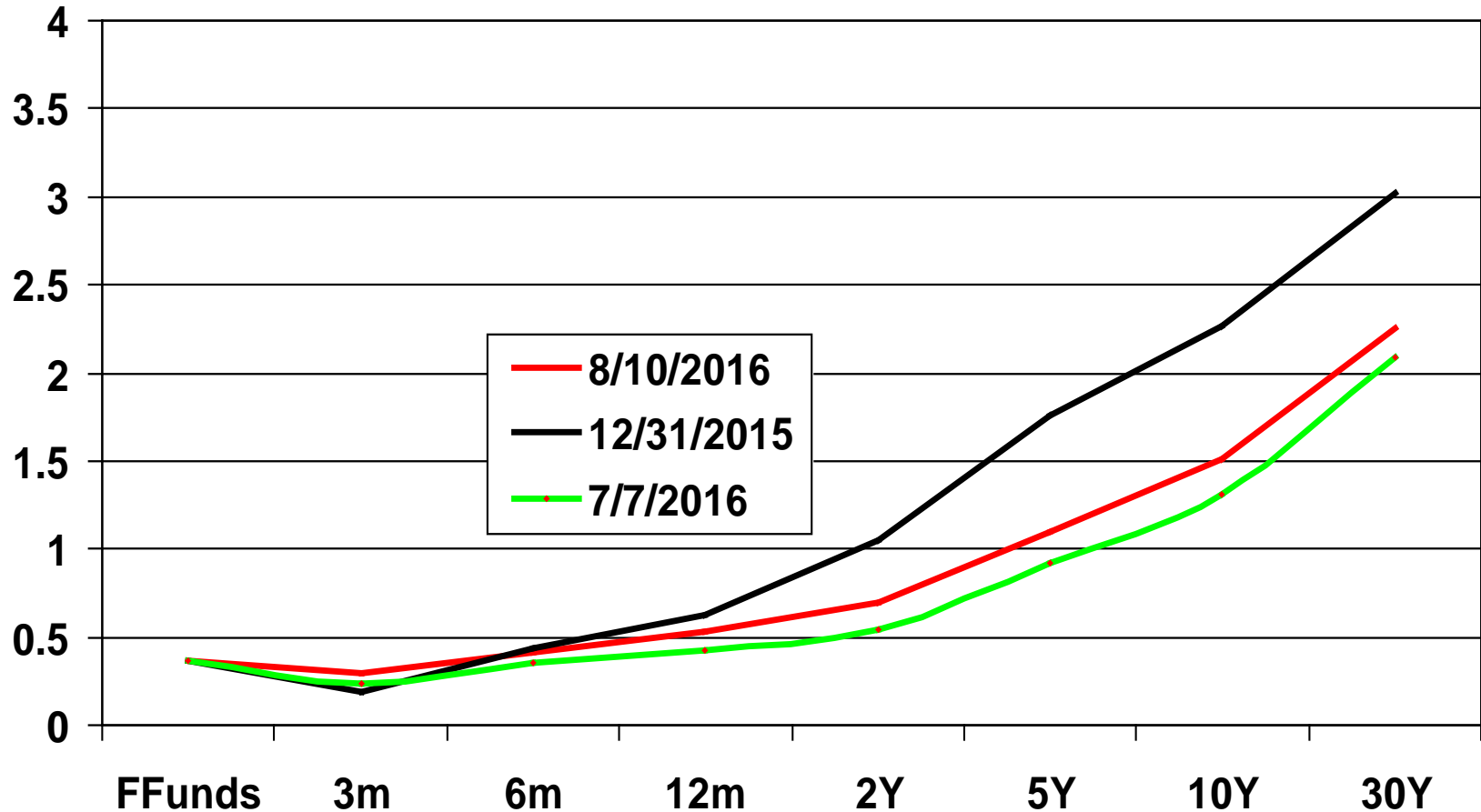
California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE



Interest Rate Forecast — D.J.'s Economix



Longer-term yields hit *record lows*



Range of Expectations for 09/30/2017

(August 2016 Bloomberg poll – 83 economists)

	Low	Median	High
GDP	-0.70%	2.10%	3.50%
UR	4.00%	4.60%	5.30%
CPI	0.00%	2.20%	3.20%
Fed Funds	0-0.25%	0.75-1.00%	2.00-2.25%
2-Year	.45%	1.20%	2.20%
10-Year	1.00%	2.00%	3.15%

Three Scenarios

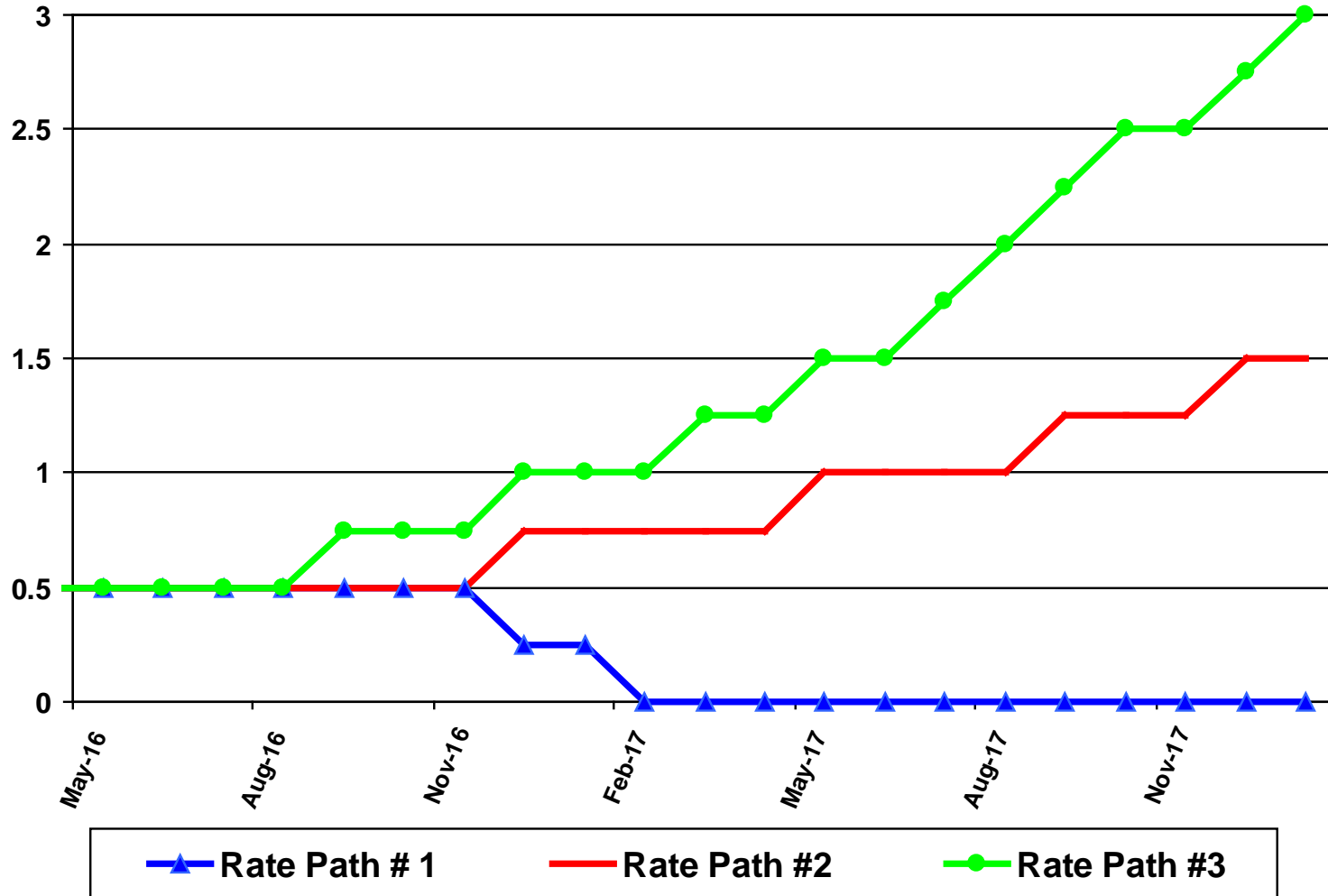
- **Low rate view** – U.S. job growth falters; Asia and Europe stymie global economy; commodities retreat again; deflationary fears emerge (49%)
- **Consensus** – Consumers boost spending; job growth improves slowly; EU crisis avoided; moderate rise in rates; no global slowdown (49%)
- **Inflation Case** – Monetarist case; Fed stays too easy too long; rates and inflation will surge as money supply and money velocity surge (2%)

Comments on forecasts

- Fed tightening path depends on market volatility and global developments
- September Fed move still possible but unlikely
- Bond market priced to no tightening until 2018
- The key to longer-term rate path depends on inflation and EU outcome — not the Fed
- Currently, odds are even between rate path #1 and #2

Fed Funds Scenarios

(Rate is high end of Fed range)



Ten-year Note Scenarios

