Bloomberg BRIEF

Economics

NEWS, ANALYSIS AND COMMENTARY

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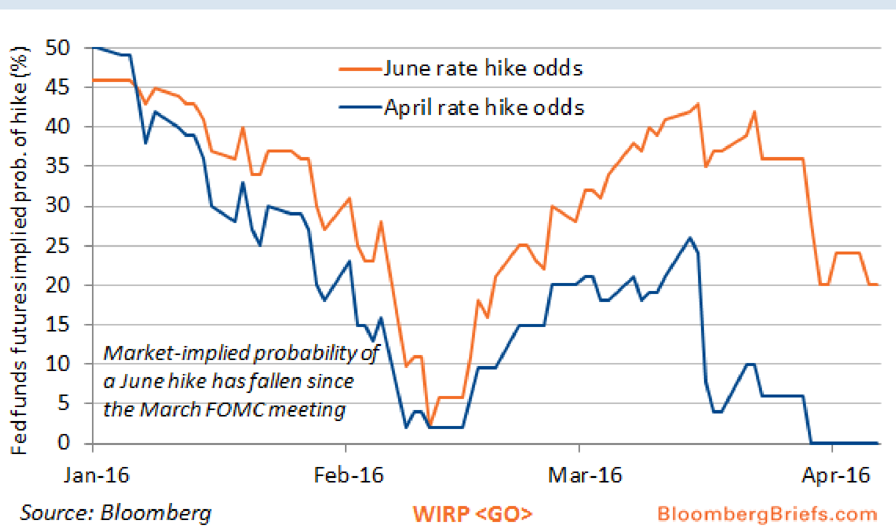
Yellen Takes Stage With Former Fed Chiefs

BEN BARIS AND JAMES BATTY, BLOOMBERG BRIEF EDITORS

- **WHAT TO WATCH:** Federal Reserve Chair **Janet Yellen** joins a discussion with Ben Bernanke, Alan Greenspan and Paul Volcker in New York, the first time the four living Fed chairs have appeared together onstage in conversation. Kansas City Fed President **Esther George** speaks about the U.S. economy in York, Nebraska, at 9:15 p.m.
- **ECONOMICS: Initial jobless claims** are *forecast* to fall by 6,000 to 270,000 in the week ended April 2, 8:30 a.m. **Consumer borrowing** is expected to rise to $14.9 billion in February after dropping to $10.53 billion the month before, 3 p.m. The IMF releases the analytical chapters of its **World Economic Outlook** at 9:30 a.m. The full report will be released before the IMF and World Bank spring meetings, which start April 15.
- **GOVERNMENT: Zhou Xiaochuan**, governor of the People's Bank of China, is among attendees at the annual meeting of the Inter-American Development Bank, which runs through April 10 in Nassau, Bahamas. Others include **Rodrigo Vergara**, governor of the Central Bank of Chile, Colombian Finance Minister **Mauricio Cardenas** and Argentine Finance Minister **Alfonso Pray-Gay**.
- **MARKETS:** The **dollar** slipped for a second day, reaching a 17-month low against the **yen**, and emerging-market shares rallied after **Federal Reserve** meeting minutes reaffirmed U.S. policy makers aren't rushing to raise interest rates.

(All times local for New York.)

Fed's Global Concern Signals Barriers to Next Rate Hike



Federal Reserve officials last month held a vibrant debate that pitted the steady U.S. expansion against heightened global risks and reached a broad agreement on a go-slow strategy that reduced the odds of a rate increase in the first half of the year. "Several expressed the view that a cautious approach to raising rates would be prudent or noted their concern that raising the target range as soon as April would signal a sense of urgency they did not think appropriate," according to minutes of the FOMC's March 15-16 meeting. Investors marked down the probability of a rate increase by the FOMC's June meeting following the release of the minutes. The chances are seen now as about 20 percent, according to trading in futures linked to the federal funds rate.

— Craig Torres and Matthew Boesler, Bloomberg News

COMMENTARY IN THIS ISSUE

The *minutes* of the March FOMC meeting show that policy makers were generally satisfied with domestic economic conditions but wary of international risks to both growth and inflation: **Carl Riccadonna** and **Yelena Shulyatyeva.**

A new Labor Department rule announced Wednesday will require brokers to put clients' interests ahead of their own when it comes to *retirement* investments: **Jordan Yadoo.**

McVean Investments' Michael Drury discusses inflation, the outlook for *oil* prices and supply and fiscal policy needs with **Tom Keene** and **Michael McKee.**

QUOTE OF THE DAY

"We know free trade is good for the economy overall, but how you get there and the distributional effects matter. I do think it behooves us to think hard about what are the programs that help. I don't think we can ignore the transition."

— Cleveland Fed President Loretta Mester, speaking to reporters after a speech in Cleveland

CENTRAL BANKER WATCH

St. Louis Fed President **James Bullard** said a growth slowdown in the first quarter could weigh on the central bank's plan to raise interest rates gradually, even as he noted inflation has picked up. Read more on the Bloomberg *terminal*.

NUMBER OF THE DAY

- **2.7** — The percentage by which **mortgage applications** rose in the week ended April 1, according to Mortgage Bankers Association data. It is the first increase since March 4. The average 30-year fixed rate was 3.86 percent, down from 3.94 percent the week before.

FOMC CARL RICCADONNA AND YELENA SHULYATYEVA, BLOOMBERG INTELLIGENCE ECONOMISTS

Fed Minutes Show Appetite for Hikes, But Little Urgency

The minutes of the March FOMC meeting show that policy makers were generally satisfied with domestic economic conditions but wary of international risks to both growth and inflation. Given the asymmetry of conventional policy options, Fed members maintain a strong preference to move slowly and with a heightened sense of caution. While a few members were leaning toward raising rates sooner, Fed Chair Janet Yellen's dovish contingent, which comprises the majority of voting members, appears to remain largely unified.

The Fed does not appear inclined to raise rates until members have greater clarity that the economy has shrugged off both the financial constriction prevalent at the start of the year and international headwinds such as slower global growth or financial market contagion.

Much will depend on sustained robust labor-market gains and firmer consumer spending. The tone of the minutes does not change BI Economics' projection of two rate hikes in 2016.

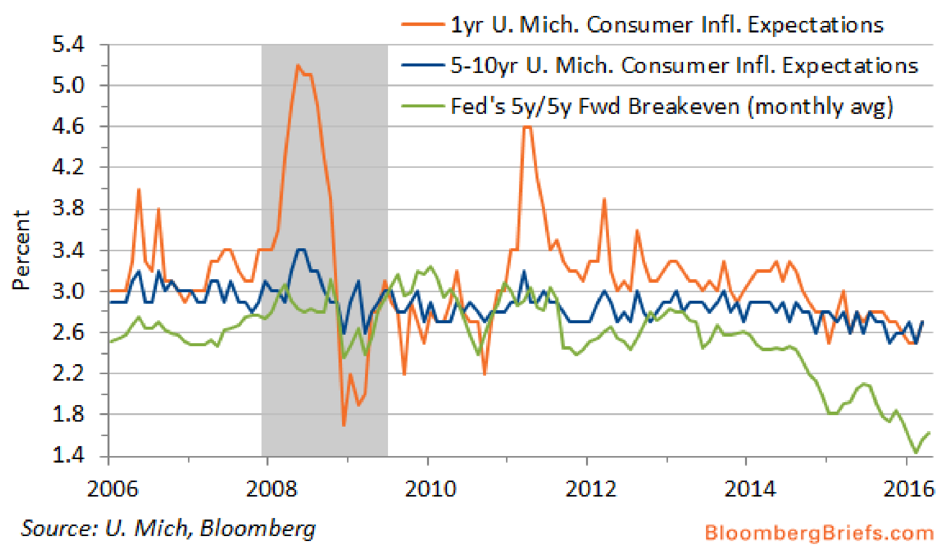
In terms of the economic assessment, the prevailing view among meeting participants was that growth would be moderate over the medium term and largely contingent upon household demand. Net exports are likely to remain weak and business investment was expected to continue to be sluggish.

The assessment emphasizes that consumer activity and labor developments are the keystone of the Fed's outlook: "Notwithstanding […] recent retail sales [weakness], participants were encouraged by [moderate growth of] consumer spending over recent quarters."

The labor market has held up nicely since the meeting but consumer spending has stumbled, rising just 0.1 percent in each of the last three months. The three-month annualized change for consumer spending (1.3 percent) is the lowest since March 2015. The latest consumer data further corroborates the sense of caution among the majority of the Committee, which did not appear to be ready for another interest-rate increase in April.

There appears to be a near-even split among meeting participants as to whether the labor market is at or near full employment. The doubters pointed to

Some Members Concerned About Low Inflation Expectations



Read this analysis with a live version of this chart on the Bloomberg terminal *here*.

elevated levels of involuntary part-time employment and limited wage pressures.

The inflation outlook continued to be soft in the near term, but the FOMC members seemed to agree that the trend will revert toward their target over the medium term. While they noted a recent firming in inflation measures, the FOMC members "expressed a range of views about the extent to which the increase would prove persistent."

Participants seemed to have split on the cause of the recent pickup: "Some participants saw the increase as consistent with a firming trend in inflation." "Some others" thought it partially reflected "increases in prices that had been relatively volatile in the past" and unlikely to be sustained. The views were also divided on inflation expectations: "Some participants concluded that longer-run inflation expectations remained reasonably stable, but some others expressed concern that longer-run inflation expectations may have already moved lower."

In addition to the downside risks posed by low inflation expectations, "several participants indicated that the persistence of global disinflationary pressures" continued to be a reason for concern. They are worried that the rest of the world is exporting disinflation to the U.S. via the strong dollar and low commodity and energy prices. The recent lull in dollar strength is likely to prove temporary if the Fed continues to move on a tightening path.

Policy makers remain wary of fallout from the tightening of financial conditions in the first two months of the year, which was specifically due to widening credit spreads and equity-market declines. They were encouraged by the improvement late in the quarter, but nonetheless feared some lingering impact. "Many participants" saw "appreciable downside risks" due to the "global economic and financial situation."

It is the global outlook, not the domestic outlook, that is giving policy makers pause, particularly with limited conventional policy options to provide offsetting stimulus. In light of the tone of the minutes and recent international developments, it does not appear that policy makers are prepared to return the conspicuously suspended "risk assessment" to the April meeting statement.

Policy makers are optimistic that consumer demand will propel the economy at a moderate pace over the medium term, assuming that foreign headwinds fade, but there is clear concern over the lack of conventional policy options. They are clearly willing to allow the economy to "run hot" in the near term, and then apply a harsher brake later on if this proves necessary.

RETIREMENT

JORDAN YADOO, BLOOMBERG NEWS

New U.S. Rule Prioritizes Retirement Savers' Interests Over Fees

When it comes to retirement planning, it's not just about how much you save, but with whom.

A new Labor Department rule announced Wednesday will require brokers to put clients' interests ahead of their own when it comes to retirement investments, tightening current industry standards that can incentivize brokers to push high-fee products that prioritize their own profits.

The shift could save billions of dollars annually for investors, who increasingly hold their money in self-directed individual retirement accounts as opposed to defined benefit plans or 401(k)s, according to a separate White House Council of Economic Advisers analysis issued last year.

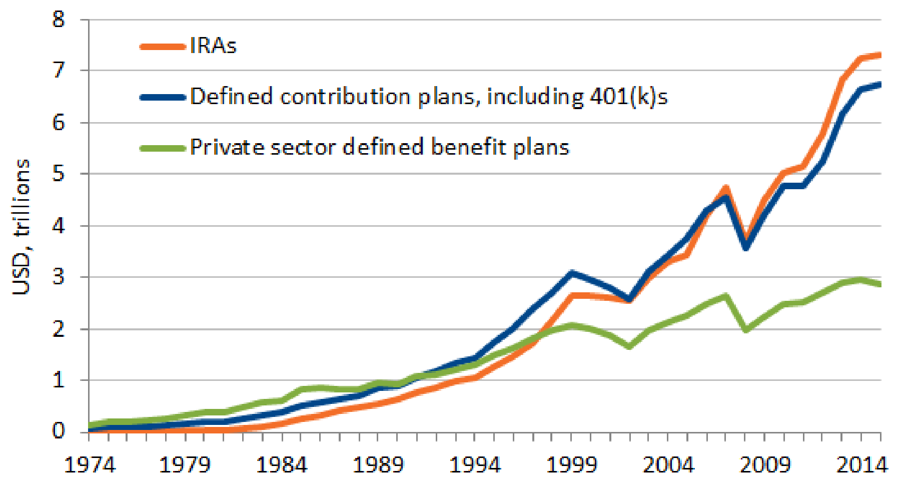
Six years in the making, the regulation imposes a fiduciary standard on any individual receiving compensation for retirement investment advice, including brokers and insurance agents who are currently held to a lesser standard. The rule, which takes effect in April 2017 and is fully implemented by January 2018, will also require brokers to clearly and prominently disclose any conflicts of interest, like hidden fees or backdoor payments often buried in the fine print.

The rule could save investors $17 billion each year, according to the White House report that said savers lose about 1 percentage point of annual returns from conflicted advice. Currently, brokers are allowed to steer investors toward high-cost mutual funds that maximize their personal gain.

The rule follows a major shift since the mid-1970s in America's private retirement system away from defined benefit plans and into self-directed IRAs and 401(k)s.

Forty years ago, defined benefit plans based on factors such as an employee's earnings history and duration of employment accounted for the lion's share of all retirement assets, according to the White House report and data from the Investment Company Institute. Workers with such plans didn't have to worry about managing or directing their retirement savings themselves. Today, the bulk of U.S. retirement assets — over $7 trillion — are held in IRAs, compared with $2.9 trillion in traditional pensions. In 1974, $1 billion was held in IRAs and $130 billion in pensions.

Majority of Retirement Assets Are in IRAs, Not DB or 401(k)s



Source: Investment Company Institute BloombergBriefs.com

That makes good investment advice especially critical today, according to Alicia Munnell, director of the Center for Retirement Research at Boston College, who co-authored a paper that was presented to the Labor Department in August. The paper described how conflicted advice significantly reduces returns on self-directed retirement accounts.

She expressed particular concern about the hundreds of billions of dollars that are rolled over from 401(k) plans to IRAs every year.

"People are being cajoled into moving their money out of a relatively low-cost, well-regulated part of the retirement system and into a relatively unregulated, high-cost part," she said in a telephone interview.

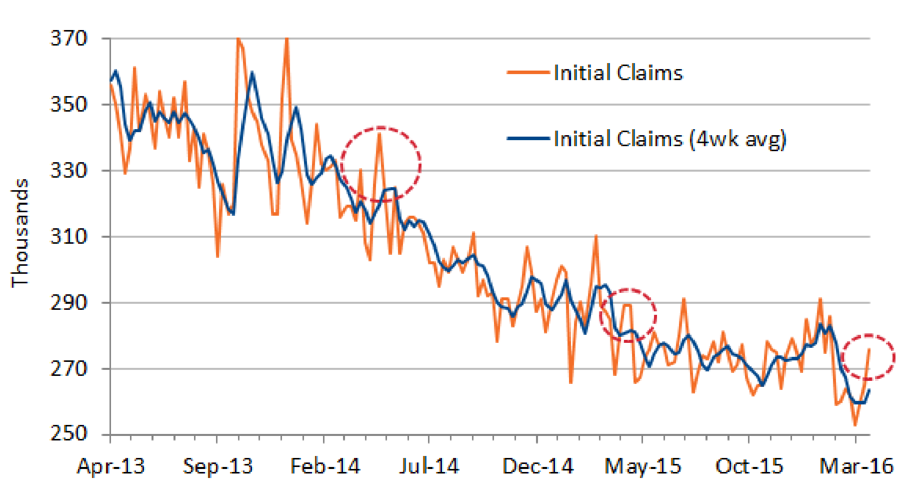
Rollovers account for the overwhelming majority of money flowing into IRAs. With tens of millions of baby boomers nearing retirement, account rollovers are poised to accelerate in the coming years, according to the White House report.

The Labor Department rule could very well slow down such transfers by requiring advisers to spell out precisely how they're in a client's best interest.

"It would be very hard for somebody who is really acting in the customer's interest to tell them to roll their money out of a 401(k)," she said. "You're not serving as a fiduciary if you're taking someone from a low-fee world and putting them in high-fee investments."

DATA & EVENTS

Technical Distortions Cloud Near-Term Claims Data



Source: BLS, Bloomberg

Initial jobless claims rose leading up to Easter after hitting post-recession lows just a couple of weeks prior. A sizable increase is common around this period, as businesses and schools pause for a spring break. Based on the historical pattern around this holiday, claims are likely to fall back toward their four-week moving average over the next few weeks, although elevated readings occasionally persist into the week immediately after Easter as well. Analysts should refrain from reading too much into the claims data in the near term due to these technical distortions. Over the longer term, jobless claims likely cannot fall much further below recent levels, so analysts will instead merely watch them for early warning signs of economic weakness in the event of a large and sustained increase.

— Carl Riccadonna, Yelena Shulyatyeva and Richard Yamarone, Bloomberg Economists

Click *here* to view a live version of this chart on the Bloomberg terminal.

CALENDAR

TIME	COUNTRY	EVENT	SURVEY	PRIOR
7:00	Brazil	FGV Inflation IGP-DI MoM	0.48%	0.79%
7:00	Brazil	FGV Inflation IGP-DI YoY	11.09%	11.93%
7:30	Euro Area	ECB Publishes Account of March Monetary Policy Meeting	—	—
8:30	Canada	Building Permits MoM	4.00%	-9.80%
8:30	U.S.	***Initial Jobless Claims***	270k	276k
8:30	U.S.	***Continuing Claims***	2170k	2173k
8:45	U.S.	Bloomberg April United States Economic Survey	—	—
9:00	Mexico	CPI MoM	0.17%	0.44%
9:00	Mexico	CPI Core MoM	0.40%	0.36%
9:00	Mexico	CPI YoY	2.62%	2.87%
9:45	U.S.	Bloomberg Consumer Comfort	—	42.8
15:00	U.S.	Consumer Credit	$14.900b	$10.538b

Source: Bloomberg. Surveys updated at 5:30 am. New York.

Click on the ***highlighted releases*** to see the full range of economists' forecasts on the terminal.

OVERNIGHT

Europe

- **European Central Bank** officials underlined their readiness to ease monetary policy even further should fresh risks to the economic outlook arise. Echoing ECB Chief Economist **Peter Praet**, who spoke at a conference in Frankfurt today, Vice President **Vitor Constancio** told a parliamentary hearing in Brussels that the central bank is willing to do "whatever is needed" to return inflation to target. President **Mario Draghi** wrote in the foreword to the annual report that policy makers won't "surrender" to excessively low price growth.
- **U.K. house prices** jumped 2.6 percent in March, according to **Halifax,** which said that pace may not be sustained as weaker economic confidence and uncertainty surrounding Britain's **European Union** referendum weigh on the market in the coming months. The average value of a home surged to 214,811 pounds ($302,200), the mortgage lender said in a statement today. From a year earlier, prices rose 11 percent. In the first quarter, values increased 2.9 percent from the previous three months.

Asia

- China's foreign-exchange reserves unexpectedly increased in March after capital outflow pressure eased as the nation's currency steadied. The world's largest currency hoard rose by $10.3 billion to $3.21 trillion last month, **the People's Bank of China** said in a statement today. That compared with the $6.3 billion decrease expected by economists surveyed by Bloomberg, who had a median projection reserves would fall to $3.196 trillion.
- The Philippines, heading into an election next month, plans to boost state spending by more than 30 percent to help shield the economy from a global slowdown. The record proposed expenditure this year will support economic growth of as much as 7.8 percent, Economic Planning Secretary **Emmanuel Esguerra**, who took office in February, said in an interview in Manila.

COMMENTARY

NARAYANA KOCHERLAKOTA, BLOOMBERG VIEW COLUMNIST

Policy Makers and Statistical Significance

The Oxford English Dictionary defines "significant" as "sufficiently great or important to be worthy of attention." It's a meaning that policy makers should keep in mind when weighing the statistical evidence for or against a course of action.

The word "significant" has a special place in the world of statistics, thanks to a test that researchers use to avoid jumping to conclusions from too little data. Suppose a researcher has what looks like an exciting result: She gave 30 kids a new kind of lunch, and they all got better grades than a control group that didn't get the lunch. Before concluding that the lunch helped, she must ask the question: If it actually had no effect, how likely would I be to get this result? If that probability, or p-value, is below a certain threshold — typically set at 5 percent — the result is deemed "statistically significant."

Clearly, this statistical significance is *not* the same as real-world significance — all it offers is an indication of whether you're seeing an effect where there is none. Even this narrow technical meaning, though, depends on where you set the threshold at which you are willing to discard the "null hypothesis" — that is, in the above case, the possibility that there is no effect. I would argue that there's no good reason to always set it at 5 percent. Rather, it should depend on what is being studied, and on the risks involved in acting — or failing to act — on the conclusions.

Setting the threshold entails a trade-off. A lower threshold means a researcher can be comfortable that she hasn't made what statisticians call a "Type I error" — meaning that she hasn't incorrectly rejected the null hypothesis. But setting it higher can help avoid a "Type II error" — in which the researcher concludes that the null hypothesis is true, when in fact those lunches could really have helped kids get better grades.

> *Policy makers should keep in mind [the meaning of "significant"] when weighing the statistical evidence for or against a course of action*

Suppose a policy maker is deciding whether to undertake fiscal stimulus. The policy maker's null hypothesis is that the stimulus will be slightly costly for the economy. However, there is some evidence and theory that suggests that the stimulus will be hugely beneficial. As a result, the policy maker believes that the cost of failing to do the stimulus when it actually would help (Type II error) is 10 times greater than the cost of doing it if it actually didn't help (Type I error).

Should the policy maker use the conventional p-value threshold of 5 percent when testing the null hypothesis? In this case, setting a higher threshold might make a lot of sense, because a Type II error is ten times as costly as a Type I error. As long as the increase in the threshold above 5 percent decreases the chance of a Type II error by at least a tenth as much as it increases the chance of a Type I error, it's worth doing.

This example illustrates three lessons. First, researchers shouldn't blindly follow convention in picking an appropriate p-value cutoff. Second, in order to choose the right p-value threshold, they need to know how the threshold affects the probability of a Type II error. Finally, they should consider, as best they can, the costs associated with the two kinds of errors.

Statistics is a powerful tool. But, like any powerful tool, it can't be used the same way in all situations.

Narayana Kocherlakota is the Lionel W. McKenzie professor of economics at the University of Rochester. He served as president of the Federal Reserve Bank of Minneapolis from 2009 through 2015.

MARKET INDICATORS

MSCI EQUITY INDICES

TICKER	COUNTRY	LAST PRICE	1D %Chg	YoY %Chg	52W Min	Average Last	52W Max	FORW. PE 12M
North America								
MXCA Index	**Canada**	1691.6	0.3%	-13.1%	1511		1982	16.1
MXUS Index	**U.S.**	1964.9	1.1%	-1.3%	1734		2042	17.0
MXAR Index	**Argentina**	2436.6	0.0%	-22%	1,847		3137	9.4
MXBR Index	**Brazil**	1226.1	-2.1%	-26.2%	860		1847	12.2
MXCL Index	**Chile**	1397.2	-1.3%	-14.1%	1,155		1699	14.9
MXCO Index	**Colombia**	530.7	1.0%	-23.9%	393		770	12.9
MXMX Index	**Mexico**	5426.6	0.1%	-15.8%	4,631		6413	18.1
MXPE Index	**Peru**	996.0	-1.1%	-15.4%	711		1259	14.5
Europe								
MXAT Index	**Austria**	98.3	-1.0%	-12.8%	87		120	11.7
MXBE Index	**Belgium**	97.2	-0.4%	-8.4%	88		110	19.2
MXCZ Index	**Czech Rep.**	228.6	0.7%	-24.5%	211		309	13.2
MXDK Index	**Denmark**	8079.0	0.1%	-3.3%	7,047		8850	19.2
MXFI Index	**Finland**	104.6	-0.2%	-17.4%	99		131	15.4
MXFR Index	**France**	121.7	-0.1%	-16.1%	111		148	14.2
MXDE Index	**Germany**	125.8	-0.3%	-22.1%	115		165	12.6
MXGR Index	**Greece**	4.0	-0.7%	-58.8%	3		11	9.6
MXHU Index	**Hungary**	1245.2	0.4%	29.8%	960		1252	12.1
MXIE Index	**Ireland**	45.9	-0.3%	-2.8%	41		53	16.7
MXIT Index	**Italy**	48.5	-0.8%	-28.2%	45		69	12.9
MXNL Index	**Netherlands**	116.2	0.1%	-11.9%	103		134	15.4
MXNO Index	**Norway**	2173.6	0.2%	-22.5%	2,018		2871	14.7
MXPL Index	**Poland**	1381.9	-0.5%	-20.6%	1,215		1840	12.8
MXPT Index	**Portugal**	36.4	-0.8%	-17.5%	33		46	12.8
MXRU Index	**Russia**	458.3	0.6%	-13.8%	331		587	7.3
MXES Index	**Spain**	94.3	-0.7%	-29.3%	88		135	12.4
MXSE Index	**Sweden**	10356.1	-1.0%	-20.4%	9,607		13210	14.9
MXCH Index	**Switzerland**	1026.3	0.1%	-14.3%	981		1227	15.8
MXGB Index	**U.K.**	1794.7	0.1%	-12.2%	1,616		2087	15.7
MXEG Index	**Egypt**	1592.5	0.7%	-13.3%	1,168		1898	8.9
MXIL Index	**Israel**	237.2	1.2%	-11.8%	222		291	10.2
MXJO Index	**Jordan**	165.8	0.0%	1.2%	160		201	
MXMA Index	**Morocco**	282.0	0.1%	-2.6%	252		290	15.0
MXZA Index	**South Africa**	1318.8	0.8%	-6.1%	1,118		1457	15.3
Asia/Pacific								
MXAU Index	**Australia**	993.7	0.4%	-18.1%	957		1222	15.5
MXCN Index	**China**	55.6	0.4%	-24.3%	48		85	9.9
MXHK Index	**Hong Kong**	11740.6	0.4%	-11.7%	10426		14574	14.8
MXID Index	**Indonesia**	5844.5	0.3%	-12.2%	4,638		6609	15.3
MXIN Index	**India**	937.7	-0.7%	-13.5%	871		1108	17.1
MXJP Index	**Japan**	767.0	0.4%	-21.1%	724		1033	12.7
MXKR Index	**Korea**	529.6	0.0%	-5.8%	475		596	10.7
MXMY Index	**Malaysia**	602.6	0.4%	-6.8%	528		651	15.8
MXNZ Index	**N. Zealand**	124.3	0.7%	8.6%	105		125	20.2
MXPH Index	**Philippines**	1239.8	0.7%	-10.6%	1,049		1389	18.2
MXPK Index	**Pakistan**	449.6	-0.4%	-8.9%	414		549	8.0
MXSG Index	**Singapore**	1480.6	0.0%	-18.5%	1,326		1862	
MXTH Index	**Thailand**	457.4	-1.3%	-14.4%	399		552	14.4
MXTR Index	**Turkey**	1147690	-0.5%	-1.1%	970K		1248K	9.0

OTHER INDICATORS

TICKER	SPREAD/RATE/INDEX	LAST PRICE	1D Chg bps/%	YoY bps/%	52W Min	Average Last	52W Max	1Y Z-SCORE
Fixed Income								
$$SWAP10 Curncy	**10Y US Swap Spread**	-13.8	-1.0	-24.0	(17)		12	-4.3
$$SWAP2 Curncy	**2Y US Swap Spread**	11.9	-0.3	-13.5	4		27	-2.0
USGGBE01 Index	**1Y Breakeven Rate**	2.0	0.0	0.4	(2.1)		2.1	1.7
USYC2Y10 Index	**Sell 2Y Buy 10Y Spread**	101.0	-0.8	-35.5	96		177	-3.4
USYC3M10 Index	**3M10Y**	150.4	-1.6	-36.1	136		247	-3.5
BASPTDSP Index	**3M Ted Spread**	40.2	-1.1	13.3	21		47	4.2
.LIBORIOS Index	**3M Libor/OIS**	25.1	0.0	10.5	10		26	9.0
JPEIPLSP Index	**EMBI+ Spread**	404.5	-4.1	14.8	359		487	0.3
BASPCAAA Index	**IG Corp Spread**	191.0	-3.8	31.9	156		227	1.3
.AAABAA Index	**IG HY Corp Spread**	118.0	0.0	20.0	88			1.0
MUNSMT10 Index	**Muni Spread**	94.9	-1.7	-8.8	84		110	-1.8
VIX Index	**CBOE VIX Index**	14.1	-1.3	-0.7	11.9		40.7	-0.5
SKEW Index	**CBOE Skew Index**	125.1	4.8	5.0	113.9		147	-0.3

COMMODITIES

TICKER	COMMODITY	LAST PRICE	1D %Chg	YoY %Chg	52W Min	Average Last	52W Max	RSI 30D
Agricultural								
C 1 Comdty	**Corn**	359.3	0.3%	-6.2%	350		452	46.4
KC1 Comdty	**Coffee**	121.7	0.2%	-14.3%	112		144	48.9
SB1 Comdty	**Sugar**	14.6	-0.1%	14.4%	10		17	48.9
W 1 Comdty	**Wheat**	463.8	0.2%	-11.8%	446		616	47.7
LA1 Comdty	**Aluminum**	1499.3	-0.3%	-16.0%	1,436		1959	47.6
HG1 Comdty	**Copper**	211.6	-1.3%	-23.4%	194		293	46.2
GC1 Comdty	**Gold**	1240.3	1.3%	2.5%	1,050		1273	55.9
SI1 Comdty	**Silver**	15.3	1.3%	-9.4%	14		18	51.5
CO1 Comdty	**Crude (Brent)**	40.0	0.3%	-32.4%	28		68	53.8
CL1 Comdty	**Crude (WTI)**	37.8	0.2%	-30.0%	26		61	52.9
XB1 Comdty	**Gasoline**	140.2	0.5%	-24.7%	90		215	56.6
NG1 Comdty	**Natural Gas**	1.9	-0.4%	-29.0%	1.6		3.0	48.6
CRY Index	**CRB index**	167.5	1.4%	-24.5%	155		232	47.9
BDIY Index	**Baltic Dry Index**	500.0	2.7%	-14%	290		1222	72.0
GI1 COMB Index	**GS Cmdty Index**	317.6	2.2%	-23.0%	273		451	51.3
BCOM Index	**Bloomberg Commodity**	77.7	0.1%	-23.4%	73		105	48.5
DBLCDBAT Index	**DBIQ Diversified Ag Index**	170.9	0.1%	-10.4%	166		196	45.9
CMDIBASS Index	**Bloomberg Base Metal**	139.6	-0.4%	-18.3%	129		185	48.3

10Y GOVERNMENT BOND YIELDS

TICKER	COUNTRY	LAST YIELD	1D CHG BPS	YoY BPS	52W Min	Average Last	52W Max	5Y CDS
North America								
GCAN10YR Index	**Canada**	1.21%	4.6	-13.4	1.0		1.9	
USGG10YR Index	**U.S.**	1.74%	-1.7	-14.7	1.7		2.5	20.4
Latin America								
	Argentina							
GEBR10Y Index	**Brazil**	14.21%	8.5	141.5	12.2		16.8	385.7
	Chile							101.1
COGR10Y Index	**Colombia**	8.14%	1.8	129.3	6.7		9.4	233.6
GMXN10YR Index	**Mexico**	5.93%	3.3	16.8	5.7		6.4	169.5
GRPE10Y Index	**Peru**	6.97%	5.0	143.0	5.4		7.7	180.3
Europe								
GAGB10YR Index	**Austria**	0.32%	-1.0	0.1	0.2		1.3	28.8
GBGB10YR Index	**Belgium**	0.49%	-0.8	3.9	0.3		1.3	49.0
CZGB10YR Index	**Czech Rep.**	0.41%	-3.0	-3.4	0.3		1.3	
GDGB10YR Index	**Denmark**	0.37%	-1.7	7.4	0.2		1.2	22.3
GFIN10YR Index	**Finland**	0.38%	-1.0	13.1	0.1		1.0	
GFRN10 Index	**France**	0.45%	-1.0	-2.1	0.4		1.3	31.9
GDBR10 Index	**Germany**	0.11%	-1.0	-7.7	0.1		1.0	18.5
GGGB10YR Index	**Greece**	9.09%	1.2	-241.4	6.9		19.2	
GHGB10YR Index	**Hungary**	3.03%	1.0	-25.0	2.9		4.2	151.7
GIGB10YR Index	**Ireland**	0.77%	-0.1	3.4	0.7		1.8	58.3
GBTPGR10 Index	**Italy**	1.30%	1.3	5.7	1.2		2.4	128.5
GNTH10YR Index	**Netherlands**	0.32%	-0.9	-3.2	0.2		1.2	25.0
GNOR10YR Index	**Norway**	1.22%	0.2	-23.3	1.2		1.9	
POGB10YR Index	**Poland**	2.90%	0.2	60.5	2.3		3.4	88.3
GSPT10YR Index	**Portugal**	3.22%	3.4	158.7	1.6		4.1	258.1
RUGE9Y Index	**Russia**	4.35%	2.6		4.3		6.2	293.1
GSPG10YR Index	**Spain**	1.53%	1.5	35.0	1.2		2.4	98.0
GSGB10YR Index	**Sweden**	0.44%	1.1	2.9	0.2		1.1	
GSWISS10 Index	**Switzerland**	-0.35%	0.3	-29.4	-0.4		0.2	
GUKG10 Index	**U.K.**	1.39%	0.4	-19.8	1.3		2.2	38.7
Middle East & Africa								
GISR10YR Index	**Israel**	1.75%	0.0	24.0	1.4		2.4	79.6
GSAB10YR Index	**South Africa**	9.26%	-1.6	156.6	7.7		10.4	316.3
Asia/Pacific								
GACGB10 Index	**Australia**	2.45%	1.7	10.2	2.3		3.1	35.5
GCNY10YR Index	**China**	2.91%	2.0	-70.0	2.8		3.7	124.0
HKGG10Y Index	**Hong Kong**	1.27%	4.3	-14.5	1.2		2.0	
GIDN10YR Index	**Indonesia**	7.59%	-2.9	26.3	7.2		9.8	203.0
GIND10YR Index	**India**	7.45%	-0.9	-33.8	7.4		8.0	
GJGB10 Index	**Japan**	-0.05%	0.6	-41.2	-0.1		0.5	45.8
GVSK10YR Index	**Korea**	1.79%	0.1	-27.8	1.8		2.6	66.2
MGIY10Y Index	**Malaysia**	3.81%	1.1	-4.3	3.8		4.5	156.1
GNZGB10 Index	**N. Zealand**	2.86%	0.9	-30.4	2.8		3.9	
PDSF10YR Index	**Philippines**	4.06%	0.0	-39.5				104.2
PKRF/10Y Index	**Pakistan**	8.21%	-26.0	-128.0	8.2		10.1	66.2
MASB10Y Index	**Singapore**	1.88%	2.3	-23.5	1.8		2.9	
GVTL10YR Index	**Thailand**	1.52%	0.4	-112.1	1.5		3.1	127.4
IESM10Y Index	**Turkey**	9.70%	2.0	162.0	8.2		11.0	264.4

CURRENCIES

TICKER	CURRENCY	LAST PRICE	1D %CHG	YoY %CHG	52W Min	Average Last	52W Max	1Y Z-SCORE
Americas								
ARS Curncy	**Argentine Peso**	14.62	-0.4%	-39.6%	8.8		15.8	18.2
BRL Curncy	**Brazilian Real**	3.64	-1.0%	-14.2%	2.9		4.2	1.2
CAD Curncy	**Canadian Dollar**	1.31	0.1%	-4.5%	1.2		1.5	1.1
CLP Curncy	**Chilean Peso**	674.50	-0.1%	-9.3%	595.6		731.5	1.1
COP Curncy	**Colombian Peso**	3081.13	-0.1%	-17.7%	2355.0		3440.0	1.7
MXN Curncy	**Mexican Peso**	17.70	0.3%	-15.7%	15.0		19.1	2.5
Europe								
GBP Curncy	**British Pound**	1.41	-0.4%	-5.0%	1.4		1.6	-4.7
CZK Curncy	**Czech Koruna**	23.72	0.1%	6.8%	23.3		25.9	-0.5
DKK Curncy	**Danish Krone**	6.53	0.1%	5.7%	6.4		7.1	-0.2
EUR Curncy	**Euro**	1.14	-0.1%	5.3%	1.1		1.2	0.1
HUF Curncy	**Hungarian Forint**	273.62	-0.1%	0.8%	267.5		294.3	0.1
NOK Curncy	**Norwegian Krone**	8.31	-0.1%	-2.7%	7.3		9.0	1.2
PLN Curncy	**Polish Zloty**	3.75	0.0%	-0.2%	3.5		4.1	0.4
RON Curncy	**Romanian Leu**	3.92	0.1%	4.1%	3.8		4.2	0.0
RUB Curncy	**Russian Ruble**	67.81	0.2%	-18.8%	49.1		82.4	1.4
SEK Curncy	**Swedish Krona**	8.16	0.2%	6.3%	8.1		8.8	-0.3
CHF Curncy	**Swiss Franc**	0.96	0.0%	1.0%	0.9		1.0	0.0
TRY Curncy	**Turkish Lira**	2.85	0.3%	-8.6%	2.6		3.1	0.9
UAH Curncy	**Ukranian Hryvnia**	25.80	-0.6%	-8.8%	20.5		27.4	1.5
Middle East & Africa								
ILS Curncy	**Israeli Shekel**	3.78	-0.4%	4.3%	3.7		4.0	-1.6
ZAR Curncy	**S. African Rand**	15.19	0.7%	-21.7%	11.8		16.9	3.8
Asia/Pacific								
AUD Curncy	**Australian Dollar**	0.76	-0.4%	-0.9%	0.7		0.8	-0.3
CNY Curncy	**Chinese Renminbi**	6.47	-0.2%	-4.2%	6.2		6.6	3.0
HKD Curncy	**HK Dollar**	7.76	0.0%	-0.1%	7.7		7.8	1.2
INR Curncy	**Indian Rupee**	66.51	-0.2%	-6.4%	62.2		68.7	2.1
IDR Curncy	**Indonesian Rupiah**	13162.0	-0.5%	-1.3%	12855		14698	0.0
JPY Curncy	**Japanese Yen**	108.32	-1.3%	11.0%	108.3		126	-5.4
SGD Curncy	**Singapore Dollar**	1.35	0.2%	0.8%	1.3		1.4	-0.2
NZD Curncy	**N. Zealand Dollar**	0.68	-0.1%	-9.0%	0.6		0.8	-0.7
KRW Curncy	**S. Korean Won**	1151.33	-0.4%	-5.5%	1068.5		1238.8	0.8
THB Curncy	**Thai Baht**	35.18	-0.1%	-7.4%	32.4		36.5	1.1
TWD Curncy	**Taiwan Dollar**	32.40	-0.1%	-3.9%	30.5		33.8	1.3
Euro Crosses								
EURGBP Curncy	**Euro-Pound**	0.81	0.4%	-9.8%	0.7		0.8	2.6
EURNOK Curncy	**Euro-NOK**	9.47	-0.2%	-7.6%	8.3		9.7	1.9
EURCHF Curncy	**Euro-Swiss Franc**	1.09	0.0%	-4.1%	1.0		1.1	0.0

Source: Bloomberg. Updated 5:30 a.m. New York time.

SURVEILLANCE WITH KEENE & MCKEE

McVean Investments Chief Economist **Michael Drury** speaks with Bloomberg's Tom Keene and Michael McKee about inflation, the outlook for oil prices and supply and fiscal policy needs.

Q: Much of what has happened in terms of disinflation in the U.S. is related to commodities. Are we going to see inflation now?
A: I think this is very bimodal. We don't see any inflation on the forefront in the commodities area. In fact, the new technology was called out by the record-high prices going into 2011. That technology is still working its way through industries and we think that you continue to see lower commodities prices for a very long time. The inflation is on the services side. You're seeing it in rents, and you're seeing it in service costs.

Q: One reason oil prices are so low is American frackers have found a way to keep improving their output at lower costs. Does that suggest that we see low oil prices forever, relatively?
A: So the really interesting thing there is until recently you basically only fracked in the Bakken and it was so profitable that it didn't really spread beyond that, because you just went further and further away from the center in the Bakken. And it was only in the last year and a half or so that you moved to the Permian and the Eagle Ford. So we don't frack in Argentina. We don't frack in China. We don't frack in Russia or anywhere in the Middle East. We're going to. So you're going to have a very difficult time coming above a ceiling that currently is $45 and will continue to decline as the technology spreads.

Q: When the price is that low, can anybody make money doing it? What is the clearing price going to be?
A: We used to say it was $72 and then we said it was $56, and now people are saying it's in the $30s, and they're saying the lifting costs even for fracking might only be in the high teens. So it keeps working its way down.

Q: Is that because of the technological progress? We've visited $29 a barrel. Are we going to go lower?
A: Yes, I think we keep working our way down because the cost of the oilfield workers has gone down. The cost of the trucking is going down. The ability to produce more from a single pad is increasing.

Q: What does it mean for what now is our dominant position in setting prices if the Chinese started fracking?
A: Early on the argument was that the seismology was different and it would be hard to frack in other places. But we've just seen from the productivity boom in the U.S that you just learn as you go. And so I think it will spread. Argentina is one of the more interesting markets for fracking, and they need the money. And it's kind of a fresh start down there.

Q: What does this additional supply and low prices mean for the U.S. and for the global economy?
A: If you're in the world that I'm looking at where it's two percent U.S., one percent Europe, then you don't need a whole lot more oil every year. China is growing, but it's not growing like it did in the past. And so any incremental increases in output are going to keep a lot of pressure on prices. Part of the only reason prices aren't a lot lower now is because the expected increase from Iran really hasn't come online nearly as quickly as the initial anticipation was.

Q: Should we be scared that central bankers don't really have a clue at this point?
A: I think they should be scared because they're central bankers. But I think it's just more and more people realizing that we need fiscal policy, we need regulatory policy, we need structural change rather than just another round of debt creation.

Q: If we don't get it, what happens?
A: So we may not get it in the U.S. But the main place that we're getting fiscal policy right now is China where they're on another round of infrastructure building, another round of directed investment. That may not be the long-run solution, but it probably buys you at least another 24 months of growth.

This interview has been edited and condensed.

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