THE AUSTIN ADVISOR

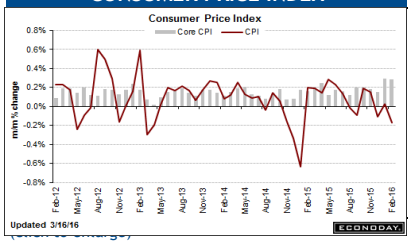
April 11, 2016

Markets	4-Apr	5-Apr	6-Apr	7-Apr	8-Apr	YTD%	31-Dec-15
DJIA	17,737.00	17,603.32	17,716.05	17,541.96	17,576.96	0.87%	17,425.03
S&P 500	2,066.13	2,045.17	2,066.66	2,041.91	2,047.60	0.18%	2,043.94
NASDAQ	4,891.80	4,843.93	4,920.72	4,848.37	4,850.69	-3.13%	5,007.41
SNL Bank Index	382.34	375.27	378.37	368.07	369.84	-14.29%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.44%	0.44%	0.44%	0.44%	0.43%		0.43%
3 Month LIBOR	0.63%	0.63%	0.63%	0.63%	0.63%		0.61%
3 Month T-Bill	0.23%	0.23%	0.23%	0.23%	0.23%		0.16%
1 Year Treasury	0.59%	0.56%	0.55%	0.52%	0.54%		0.65%
2 Year Treasury	0.75%	0.72%	0.73%	0.70%	0.70%		1.06%
3 Year Treasury	0.88%	0.85%	0.88%	0.83%	0.84%		1.31%
5 Year Treasury	1.22%	1.17%	1.20%	1.14%	1.16%		1.76%
10 Year Treasury	1.78%	1.73%	1.76%	1.70%	1.72%		2.27%
30 Year Treasury	2.60%	2.54%	2.58%	2.52%	2.55%		3.01%

WEEKLY HIGHLIGHT

Minutes of the FOMC March meeting reflects a wide range of opinions on the Committee

CONSUMER PRICE INDEX



Economy	Week of April 4, 2016	
Trade Deficit	-$46.1 Billion	Wider deficit than expected, but both exports and imports were up providing some evidence of better final demand growth
FOMC Minutes		The minutes reflect a strong debate in the FOMC with at least two members pushing for higher rates on rising inflation

Calendar	Release	Covering	Week of April 11, 2016
Retail Sales	Wednesday	March	A small increase of 0.1% is expected, but up 0.4% excluding weaker auto sales
Producer Price Index	Wednesday	March	A rise of 0.3% is expected which would be well above the inflation data of the last year, as oil prices dropped
Consumer Price Index	Thursday	March	An increase of 0.2% would reverse the drop in February and bring the YOY growth to 2.3%
Industrial Production	Friday	March	Manufacturing has been a drag and a warm winter depresses utility output, producing another drop of 0.1%
Capacity Utilization	Friday	March	Higher inflation will not be a function production constraints, with the operting rate expected to drop to 75.5%

MONDAY MUSING

This past week has been one of terrible weather, including 6 inches of snow on Saturday. I found I have acquired another health problem as a result. I cannot text on my phone in the cold weather. This condition is called typothermia. I cannot complain too much about the weather. If it wasn't for the weather, most of us could not start a conversation. I did throw away a gift I got for Christmas. It was a Chia Pet, but it rained so much overnight the thing is now blocking my driveway.

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Commentary

The minutes from the March **FOMC** meeting were released last week. It is clear from those minutes there is a difference of opinion on the committee with respect to the **inflation** outlook. The two members of the committee that argued for a rise in managed rates in March did so based on their view that inflation pressures are starting to build. The rest of the committee also acknowledged inflation has moved up and believe there is a risk that this is temporary, and the Fed should move slowly in their effort to **normalize monetary policy**. The rest of the committee believed the higher inflation data may be transitory in nature and the Fed should wait for more data before moving rates higher.

The most visible inflation data is due out this week for March. The **PPI** and **CPI** are both expected to be higher than prior months, due to the move in oil prices last month. Oil moved to above $40 per barrel, up from under $30 in February. Gasoline prices have moved up even more as added pressure comes from refinery capacity issues, and the change over to summer blends. There are many forces at work that leads to higher inflation going forward, including a tight labor market forcing wage rates higher. The minutes of the Fed meeting reflects all of these concerns.

The data due out this week will provide additional evidence as to whether inflation is accelerating or is transitory. Currently, investors are not pricing in any inflation risk in intermediate or long-term market interest rates. Should inflation begin to increase at a faster pace, we would expect market rates to move up faster than short rates. The Fed is clearly behind **the curve**, even as they discussed rising inflation risks at their last meeting. They are comfortable with this position, which means they are raising short rates until a sustained period of higher inflation is reported.

Data like last week's **trade deficit** provides the kind of evidence global economic conditions have stabilized and may be heading higher. Both imports and exports increased in February. **Domestic demand** and **spending** drove imports up 1.3%, while exports grew by 1.0%. The fact that exports increased provides some evidence that foreign economies may have bottomed out. A higher trade deficit, caused by growth on both sides, generates less of a drag on **Real GDP** growth. The **manufacturing sector** continues to contract as measured by **industrial production data**. Part of this is due to the warm winter in many parts of the country and the lower level of utility output that results. However, business fixed investment growth will be held down by the low **capacity utilization** rate. **Residential spending** should remain strong, offsetting some of the lack of business fixed investment spending. The data, on balance, does not reflect the risks the Fed has cited as reasons to back away from raising rates. Market interest rates continue to allow managed rates to dictate current pricing levels.

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