THE AUSTIN ADVISOR

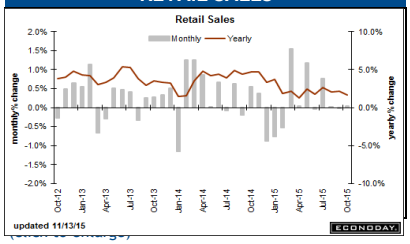
December 7, 2015

Markets	30-Nov	1-Dec	2-Dec	3-Dec	4-Dec	YTD%	31-Dec-14
DJIA	17,719.92	17,888.35	17,729.68	17,477.67	17,847.63	0.14%	17,823.07
S&P 500	2,080.41	2,102.63	2,079.51	2,049.62	2,091.69	1.59%	2,058.90
NASDAQ	5,108.67	5,156.31	5,123.22	5,037.53	5,142.27	8.58%	4,736.05
SNL Bank Index	447.39	452.23	446.52	440.03	451.93	4.43%	432.75
Fed Funds Rate	0.08%	0.13%	0.13%	0.13%	0.13%		0.06%
1 Month LIBOR	0.24%	0.24%	0.25%	0.27%	0.28%		0.17%
3 Month LIBOR	0.42%	0.42%	0.44%	0.45%	0.46%		0.26%
3 Month T-Bill	0.22%	0.21%	0.21%	0.21%	0.23%		0.04%
1 Year Treasury	0.51%	0.51%	0.52%	0.57%	0.60%		0.25%
2 Year Treasury	0.94%	0.91%	0.94%	0.96%	0.96%		0.67%
3 Year Treasury	1.24%	1.19%	1.23%	1.27%	1.25%		1.10%
5 Year Treasury	1.65%	1.59%	1.63%	1.74%	1.71%		1.65%
10 Year Treasury	2.21%	2.15%	2.18%	2.33%	2.28%		2.17%
30 Year Treasury	2.98%	2.91%	2.91%	3.07%	3.01%		2.75%

WEEKLY HIGHLIGHT

A strong labor market report last Friday is the last piece of data the Fed needed to move rates next week

RETAIL SALES



Economy	Week of November 30, 2015	
Motor Vehicle Sales	18.2 Million	This the third consecutive month of sales at this high level, and it represents a 12 year high rate
ISM Index	48.6	The index dropped below the break even level of 50 for the first time since June 2009
Unemployment	5.0%	The rate was unchanged for the month, with the number of employed up about the same as the growth in the workforce
Nonfarm Payrolls	211,000	A strong growth and prior two months were revised upward by 35,000, bringing monthly average this year above 200,000
Avg. Hourly Earnings	0.2%	Wages were up as expected, but half the rate of October, with expectations of faster growth yet to be reported
Trade Deficit	-$43.9 Billion	The deficit increased, as low oil prices and weak foreign demand affected both imports and exports

MONDAY MUSING

It is that time of the year when all the charities start calling looking for donations. Some of them should do a better job of screening who they are calling. I got one last week from one that wanted me to donate some of my clothes to help starving people in this world. I know it was a scam because anyone who fits in my clothes is not starving. If they had asked for my shirts to make a tent for shelter, I would have given them a few.

Calendar	Release	Covering	Week of December 7, 2015
Consumer Credit	Monday	October	Credit is expected to expand by $20.4 billion following September's record $28.9 billion as auto loans continue to grow
Producer Price Index	Friday	November	Low commodity prices, with large inventories and weak demand globally keeps prices from rising, expect no change
Retail Sales	Friday	November	The consensus calls for growth of 0.3%, which is moderate and consistent with modest personal spending data

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Commentary

Short term market rates have moved higher and remain higher as investors price in the expectation of a **Fed** move next week. This expectation was strengthened by the **employment report** for November. **Nonfarm payrolls** increased by 211,000 in November, and September and October data was revised upward by 35,000. Jobs grew by a huge 298,000 in October. The **unemployment rate** remained at 5.0% as the household survey reported an increase of 244,000 in those working, which was just slightly less than the increase in the size of the workforce that increased by 273,000. This acceleration in job growth has driven the unemployment rate well below the forecasts issued by the Fed. By any measure, the **labor market** continues to tighten, in spite of the drop in manufacturing and energy sector jobs. **Average hourly earnings** did increase by 0.2% for the month. This was less than the increase in October, but was strong enough to maintain the acceleration in wages that began four months ago. **Job growth** will continue to put pressure on **labor costs** as companies have difficulty filling open job positions.

This is the last piece of economic data which could have affected the **FOMC** decision on beginning the process of **normalizing monetary policy** by raising the target rate for **Fed Funds** by 25 basis points. The intermediate and long end of **the curve** have not moved, even as the short end has moved higher. Over the last twelve months, the yield on the two-year treasury has risen by 45 basis points to .94%. The yield on the ten-year is actually 4 basis points lower than one year ago. The intermediate and long end are driven by **inflation** expectations, while the short end is driven by expected **Fed policy**. Investors are not convinced inflation is going to increase without a higher **operating rate** in the **manufacturing sector** and recovery in **commodity prices;** neither appears to be occurring with recent data.

Our forecast calls for the curve to flatten further as the Fed moves, and inflation does not increase until inventories of commodities are reduced. We expect that to occur in the second half of next year. The issue for banks is the risk of **rising funding costs** and no increase in asset yields. Even if banks do not raise nonmaturity deposit rates as much or as fast as the Fed moves, funding costs will rise. This will be a function of customers moving money from low yielding nonmaturity deposit accounts and into higher yielding short-term CD's, to non-deposit investment securities or for increased consumption expenditures. In any case, losing balances from the low cost accounts will increase overall funding costs. The competitive loan environment continues to offer low rate, long term fixed rate loans. It is difficult to get asset yields higher when the curve flattens.

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