Capital Markets Group

Weekly Review—November 1, 2019

I love traveling. I just returned from a European vacation with my wife and another couple, celebrating their 25th wedding anniversary and their first trip to Europe. One of the reasons I love visiting other countries is to see everyday life there. Two of the countries we visited have negative interest rates on national debt: Germany and Switzerland. I was particularly interested in how this interest rate environment affected the normal routine of citizens of these countries. Admittedly, my observations are limited in scope and at times anecdotal, yet I believe they are representative of at least a sample of each society.

Germany: We spent the most time here, in Bavaria, mostly in Munich. I expected to see some signs of strain, or negative attitude of people going to work, or talk of negative rates – shows how much of a bubble I live in here at work where we often talk about it. Where I found that was in news stories about Deutsche Bank – possible layoffs, earnings pressures, and lower trading revenues. I expected to see that carryover into the greater society. What I saw was people getting up, going to work, buying food, drinks, clothing, and other necessary and discretionary items. People were pleasant and continued their routines. The most telling example was our trip to the Englischer Garten (English Garden). It is a vast green space, larger than Central Park in NYC, where friends and families gather to relax, play games, drink in biergartens, and exercise on the weekends. There were thousands of people out with their children, playing, walking, cycling, running, eating and drinking. Almost all were smiling. This cloud of negativity I expected was not present. Now, as I mentioned, this was just my observations of the sampling of the population that I encountered. I am sure if I were in a board room of any bank in Germany, the smiles may not have been as prevalent, but I wasn't there so I cannot say for sure, but I imagine, the bankers were still working hard and showing up for work, not letting the Bund curve determine their effort.

Switzerland: We spent our time in Zurich, the financial capital of Switzerland, home to so many banks. While we were there, UBS announced earnings. They had strong trading revenues but reported less than expected. As with Deutsche Bank, UBS is a large institution and has other sources of revenue than margin related items (loans, bonds). However, I did see several local banks still open and operating. The same as in Germany, people went about their everyday routines, shopping, eating in restaurants and cafes – let me tell you, it is one of the most expensive places to live yet the streets were packed with people going to work and eating lunch and dinner. On the train leaving Zurich, traveling to Italy, I met a woman who was going on vacation in southern Italy. I asked her if her life has changed much since the national interest rates were negative. She replied no. She still spent money traveling, going out to eat with friends and appeared to enjoy life. She was most worried about her youngest son who had invested in cryptocurrency, not the state of interest rates.

I share this with you as we read about and speak about the possibility of negative rates coming here to the US. For the banking industry, this is quite a serious concern and something leadership in your organizations should be discussing and preparing strategies for – if it materializes here. It is a serious topic and should be given the respect it deserves – it could greatly affect my livelihood and those of many colleagues and friends. But what I want to assure you readers is that if negative rates come to our markets, life will not end, we will still spend time and money on things that we enjoy. But we should prepare nonetheless. If you did not receive the latest Community Bank Views newsletter our Managing Director, Erik Swanson, addresses the topic of negative short-term rates and the consequences of the Japanese Banking industry, please email me and I will send you a copy.

Have a great weekend!

Matthew Maggi | Vice President | Capital Markets Group | 800 548-2663 | matthew.maggi.commercebank.com

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
11/04/2019	$3,060,000	WEST STLCO MO EMS & FPD UT GO BQ Aa1	2021-2024
11/05/2019	$6,400,000	BEL AIRE KS 2019A UT GO BQ A+	2021-2040
11/07/2019	$12,560,000	WICHITA KS 2019A UT GO TAXABLE	2022-2044
11/07/2019	$51,785,000	WICHITA KS WTR & SEW 2019B REV TAXABLE	2021-2030
11/07/2019	$31,085,000	ROCKWOOD R-VI SD STLCO MO 2019 UT GO AAA	2020-2029

ECONOMIC CALENDAR

Monday 11/4	Tuesday 11/5	Wednesday 11/6	Thursday 11/7	Friday 11/8
Durable Goods Orders Factory Orders	Trade Balance	MBA Mortgage Applications	Initial Jobless Claims	Wholesale Inventories MoM U. of Mich. Sentiment

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	4.75	5.00	5.25
Discount Rate	2.50	2.50	2.75
Fed Funds Rate	1.82	1.90	2.20
IOER	1.55	1.80	2.20
1-Month Libor	1.78	2.02	2.30
11th Dist COFI	1.13	1.16	1.08
1-Yr. CMT	1.53	1.75	2.69
Dow	27,347.36	26,573.04	25,380.74
NASDAQ	8,386.40	7,908.69	7,434.06
S&P 500	3,066.91	2,940.25	2,740.37
Bond Buyer	2.79	2.66	4.33

MUNI AA—BQ

3 Mo.	1.09
6 Mo.	1.12
1-Year	1.14
2-Year	1.16
3-Year	1.17
5-Year	1.24
7-Year	1.38
10-Year	1.63
30-Year	2.26

Treasuries & New Issue Agencies *(Spread to Treasuries)*

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	1.51				
6 Mo. Bill	1.54				
1-Year Bill	1.52				
2-Year Note	1.55	4	21	8	
3-Year Note	1.55	4	31	18	
5-Year Note	1.54	9	48	37	19
7-Year Note	1.63	19	52	37	19
10-Year Note	1.71	24	65	55	44
30-Year Bond	2.20				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+45
2-Year	51	65
3-Year	63	77
5-Year	76	87

MBS Current Coupon Yields

GNMA 30 Yr.	2.36%
FNMA 30 Yr.	2.62%
GNMA 15 Yr.	2.08%
FNMA 15 Yr.	2.20%

About the Author, Matthew Maggi

Prior to joining CMG in 2016, Matthew was the Corporate Treasurer at a $1.2 billion publicly-traded community bank headquartered in Missouri. During his tenure, he developed and implemented balance sheet strategies to maximize margin while managing acceptable levels of interest rate risk, liquidity, and capital. Matthew not only managed the investment portfolio, but also conducted extensive loan portfolio performance analyses.

Previously, he was a Treasury Analyst for one of the largest privately held banks in the U.S. He monitored cash flow and liquidity and developed funding strategies. Matthew leverages his extensive balance sheet management experience to provide tactical and strategic solutions to maximize performance while mitigating risks for the community banks.

The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.