

U.S. Interest Rates Chartbook

June 2017

Takeaways

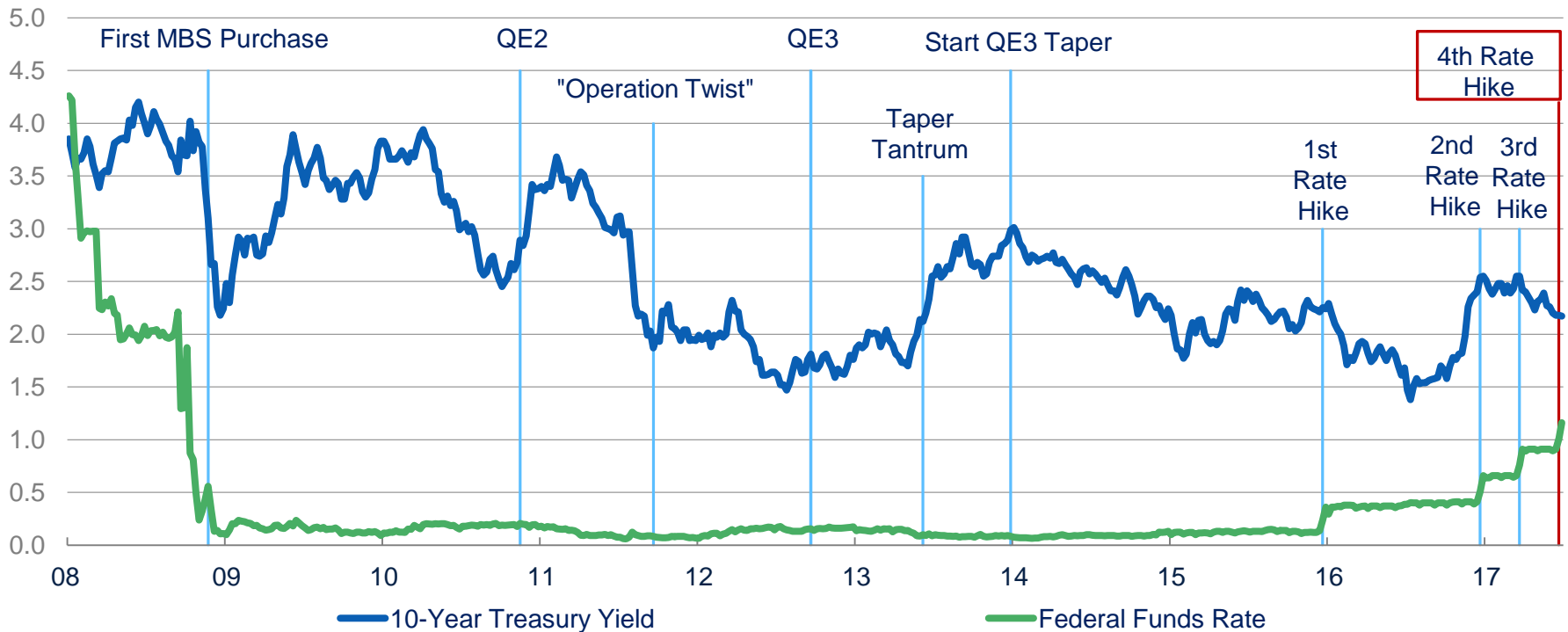
- ◆ The FOMC raised the Fed funds rate 25bp to 1.25% after the June meeting. In addition, it signaled a firm intention to raise rates one more time in 2017 and provided clear guidance on balance sheet normalization as it prepares to roll off the process in coming months
- ◆ Although the Fed funds futures market remains aligned with the FOMC on the likelihood of one more rate increase before year-end 2017, both paths diverge significantly thereafter
- ◆ The yield curve has further flattened under upward pressure from the policy rate increase and from downward pressure on the long-end from a decline in inflation expectations and safe-haven flows
- ◆ Our baseline scenario assumes a moderate increase in long-term yields, supported by robust growth expectations, a tightening labor market, and upward pressure from term premium given the Fed's plan to trigger balance sheet normalization



Unconventional Monetary Policy

FEDERAL FUNDS RATE AND 10-YEAR TREASURY NOTE

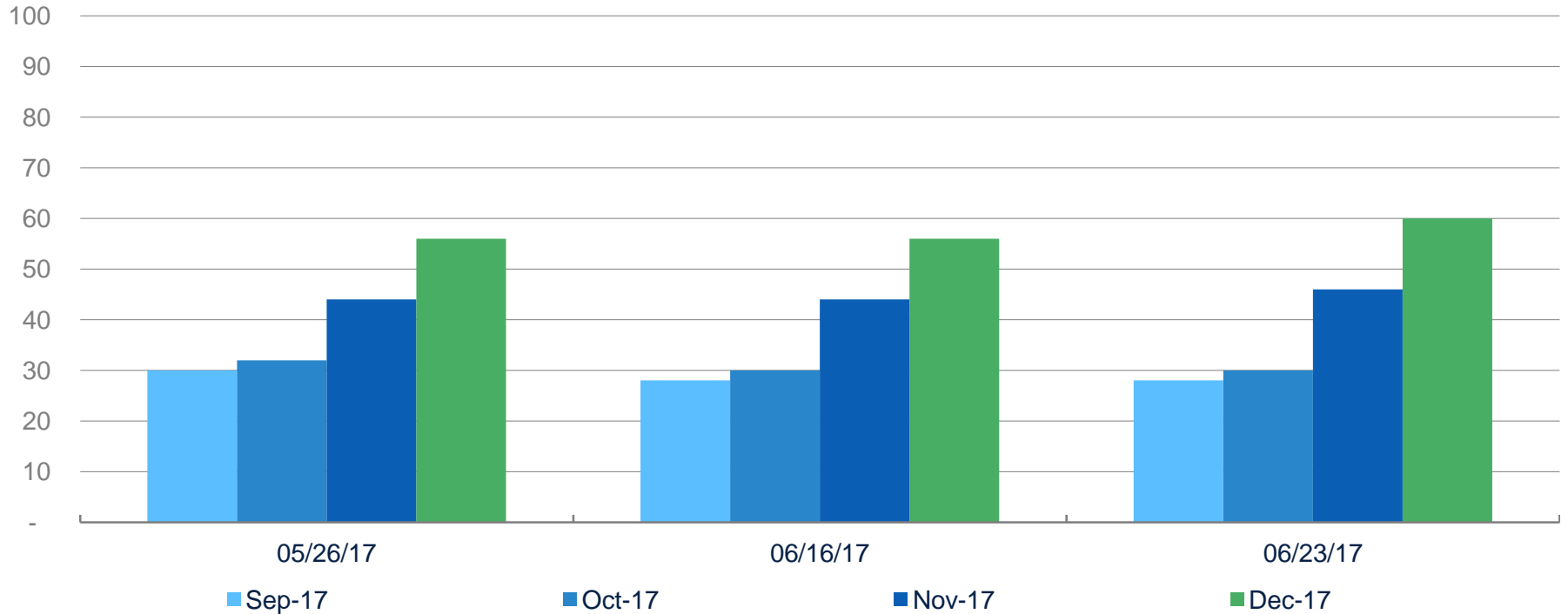
(%)



Fifth Rate Hike is Priced in for 4Q17

FED FUNDS FUTURES IMPLIED PROBABILITIES, FIFTH 25BP HIKE

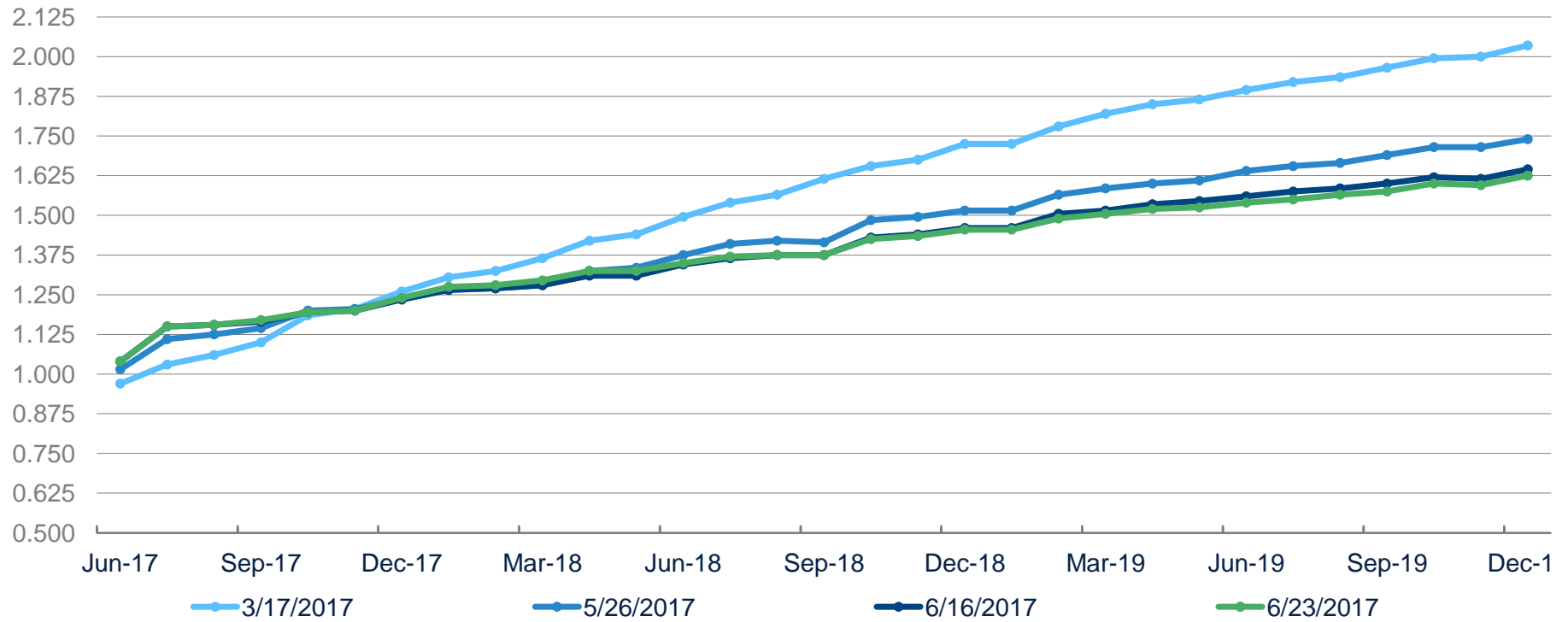
(%)



Fed Funds Futures Curve

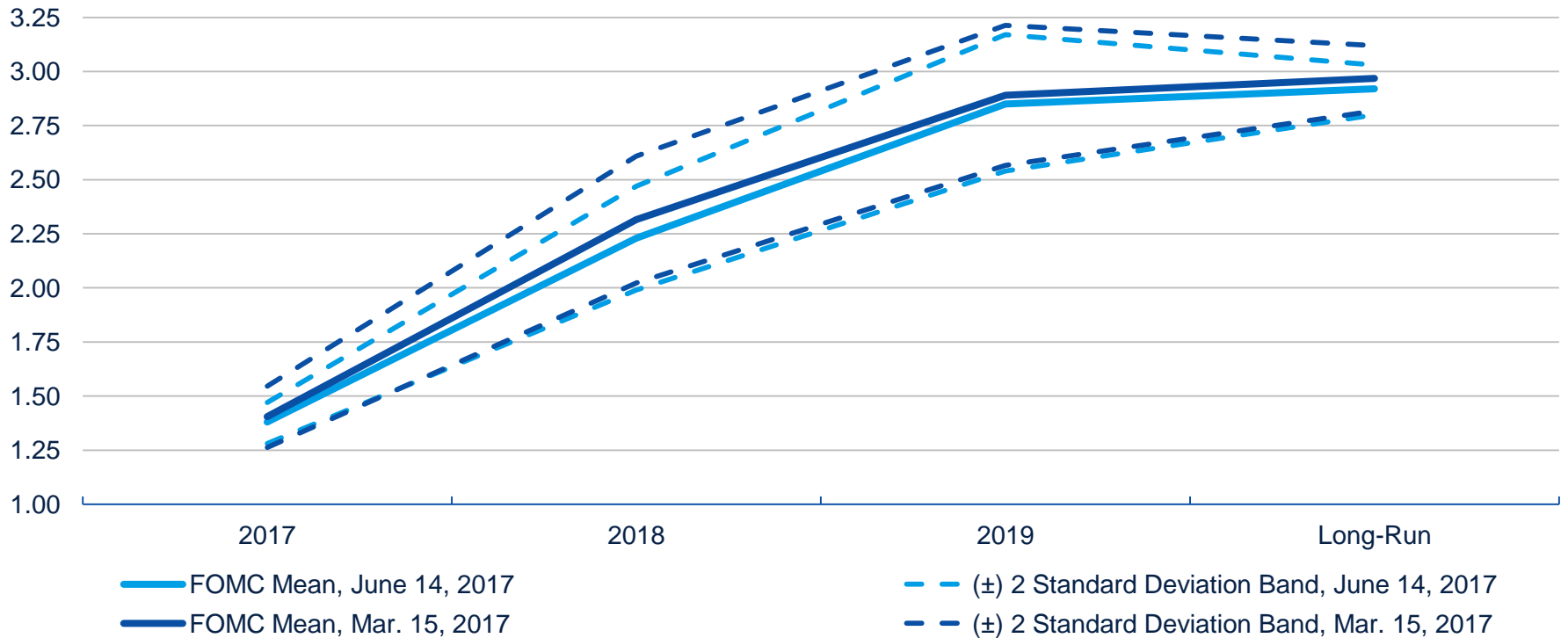
FED FUNDS FUTURES – MOST RECENT, 1 WEEK PRIOR, 1 MONTH PRIOR, 3 MONTHS PRIOR

(%)



FOMC 2017 and 2018 Policy Firming Trajectory Medians Remain Unchanged

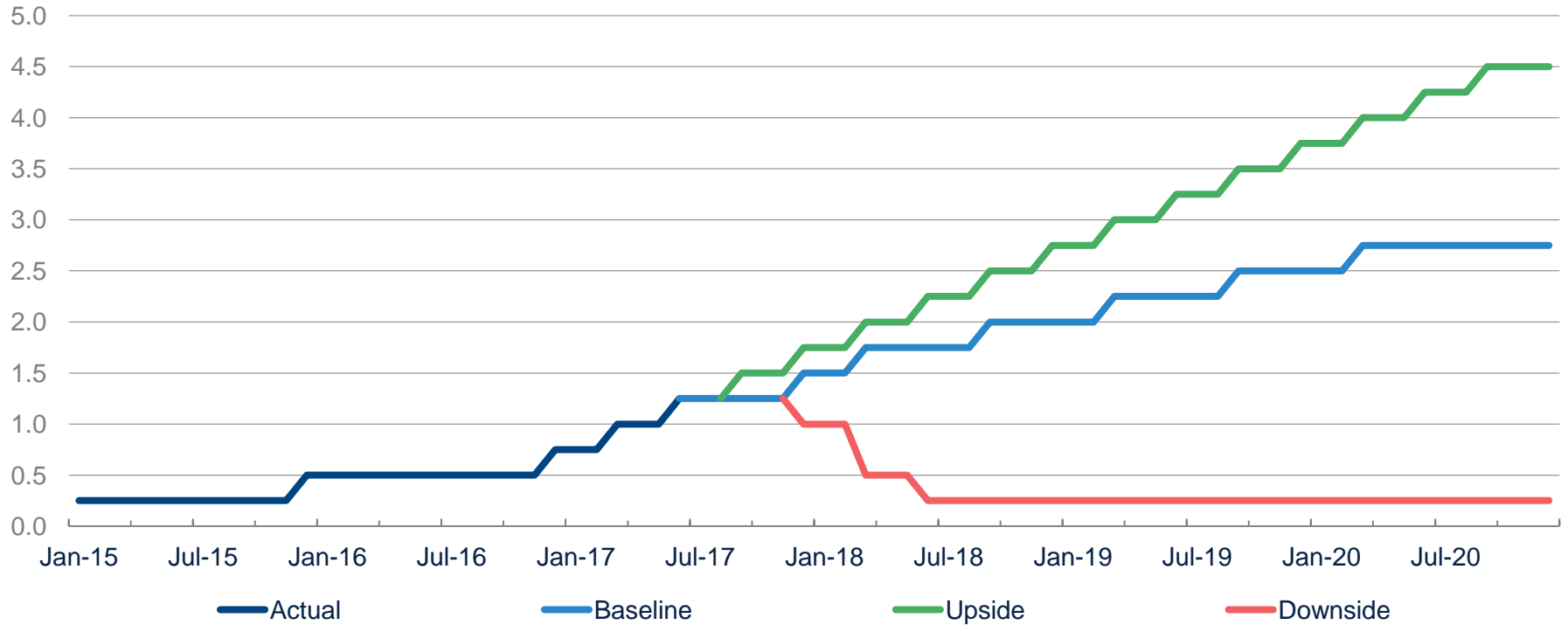
PROJECTED PACE OF POLICY FIRMING
(%)



Source: BBVA Research, Federal Reserve Bank of New York and Federal Reserve Board

BBVA Fed Funds Firming Pace Forecast

FEDERAL FUNDS RATE
(%, Upper Bound, End of Period)

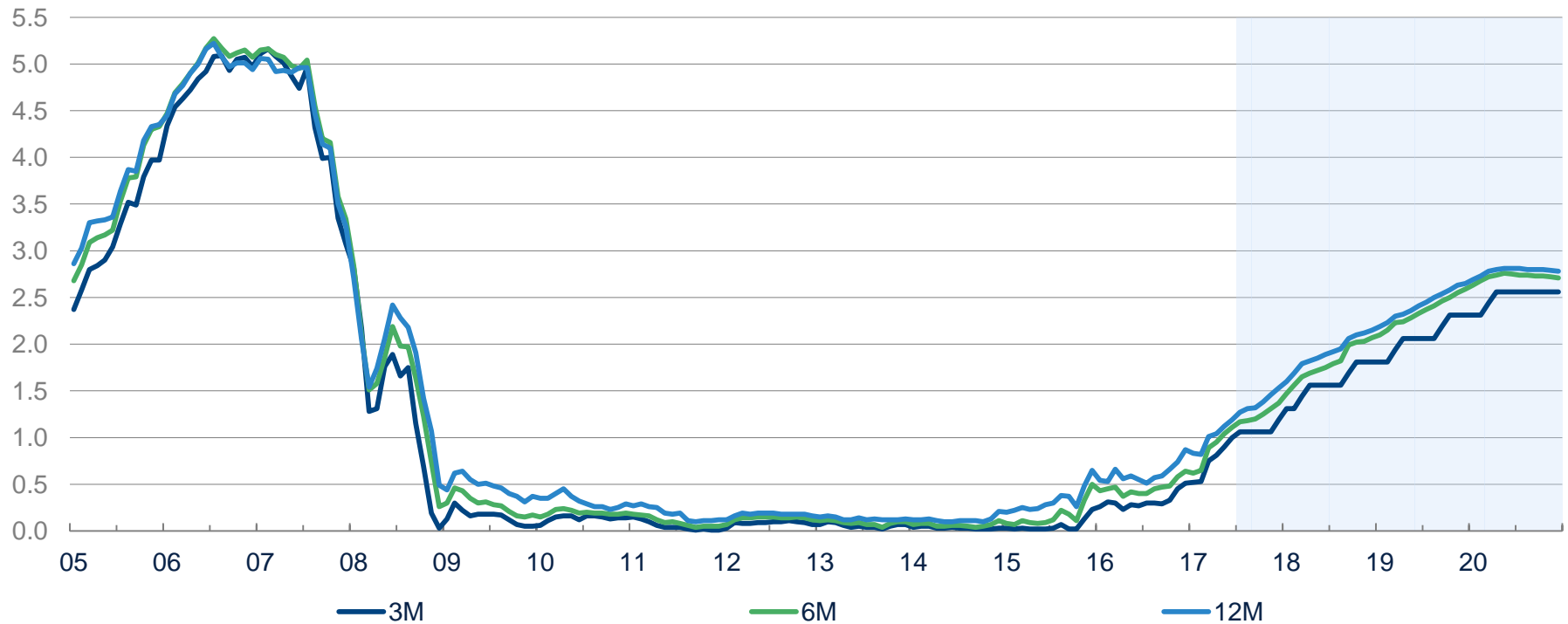


Source: BBVA Research, Federal Reserve Board and Haver Analytics

BBVA Baseline Forecasts of Treasury Bill Yield

3-MONTH TO 12-MONTH RATES

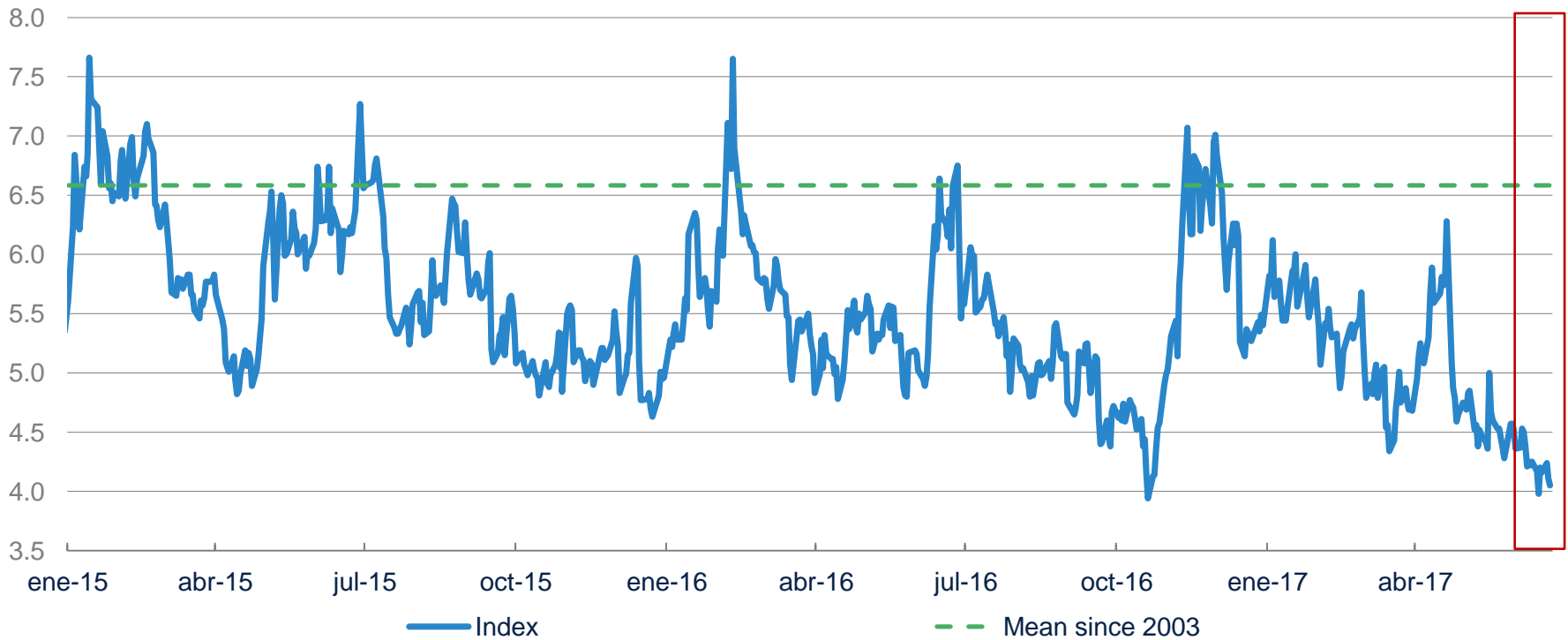
(%)



Source: BBVA Research, Federal Reserve Board and Haver Analytics

Long-Term Yield Volatility Has Further Declined Below Historic Mean

10-YEAR U.S. TREASURY NOTE VOLATILITY
(Daily index)

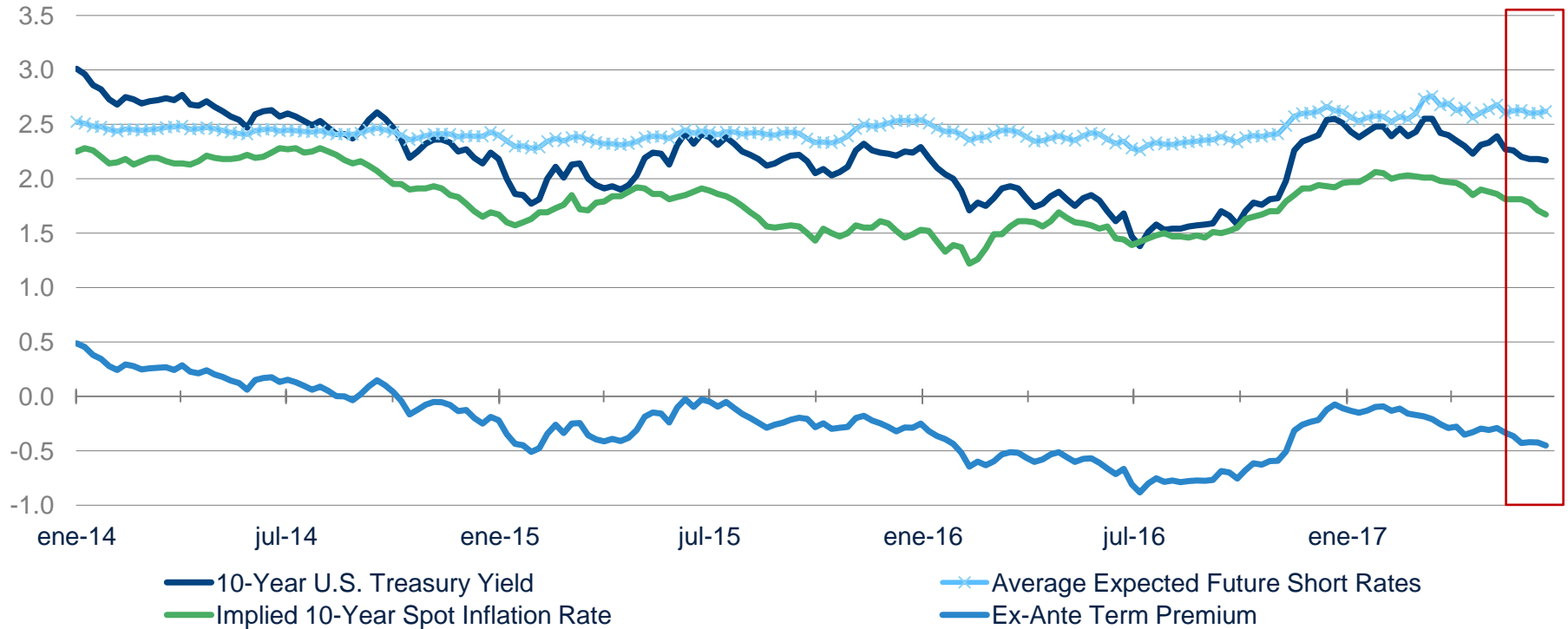


Index measures a constant 30-day expected volatility of 10-Year Treasury Note futures prices, and is calculated based on transparent pricing from the Chicago Board of Trade's actively traded options on the Treasury Note futures

Downward Pressure on Term Premium Resumed

10-YEAR U.S. TREASURY TERM PREMIUM & MARKET INFLATION EXPECTATIONS

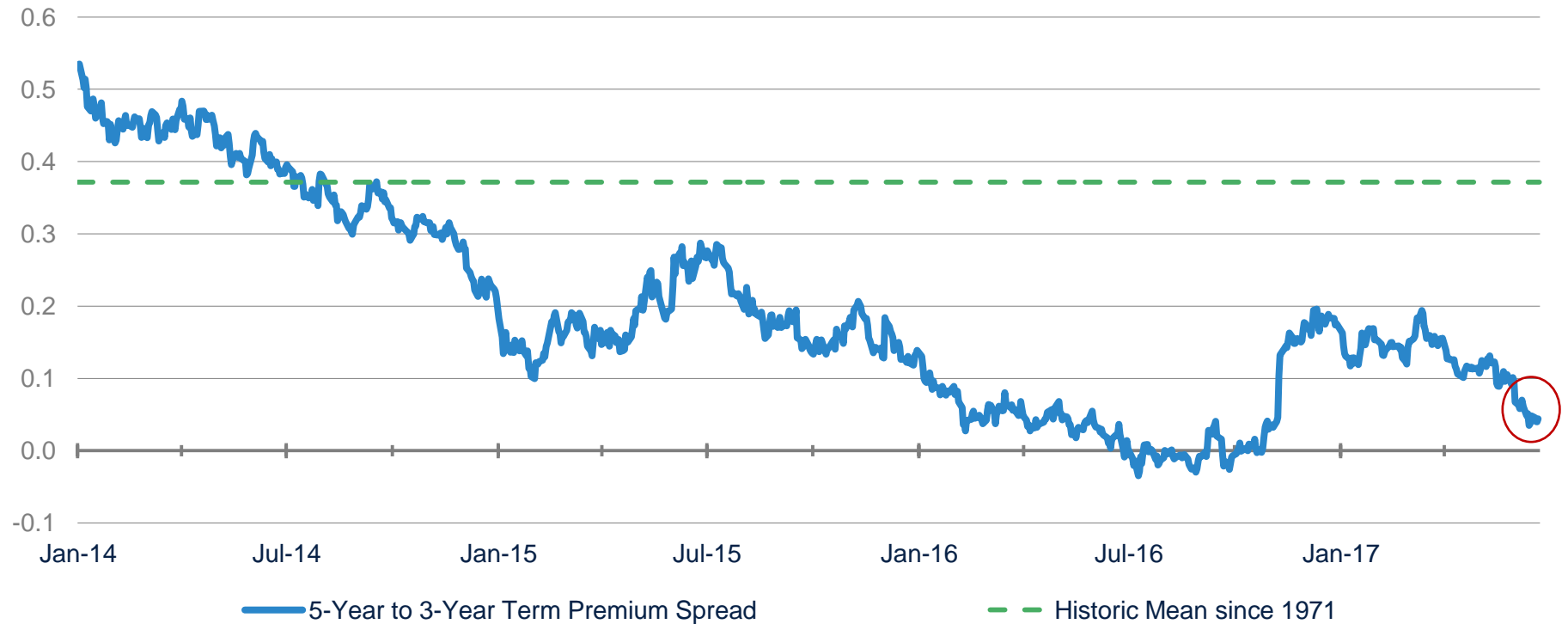
(Weekly, %)



Mid-Term Duration-Risk Compression Has Declined by 6 Basis Points

DURATION-RISK COMPRESSION

(Daily, %)

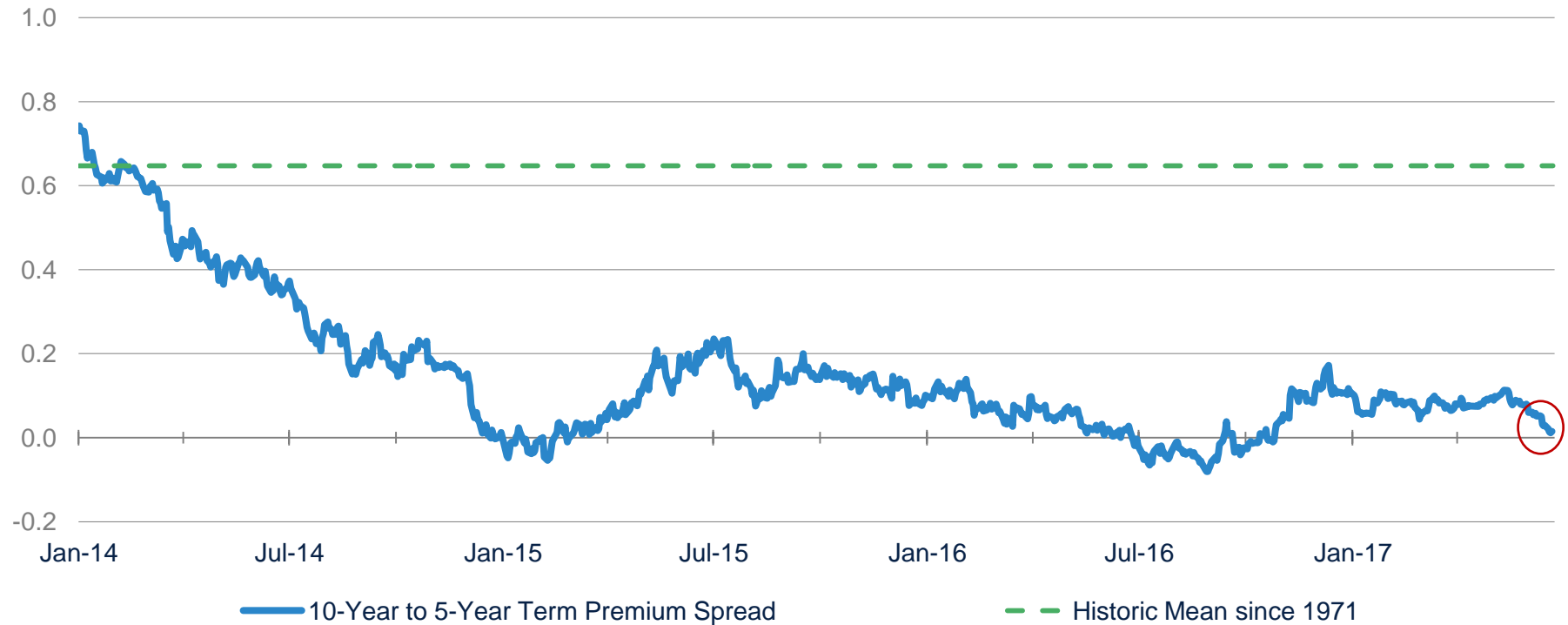


Calculated as the difference between 5-Year and 3-Year term premium reported by the New York Fed ACM (Adrian, Crump, and Moench) five-factor, no-arbitrage term structure model incorporating pricing factors.

Long-Term Duration-Risk Compression Has Declined to Near Zero

DURATION-RISK COMPRESSION

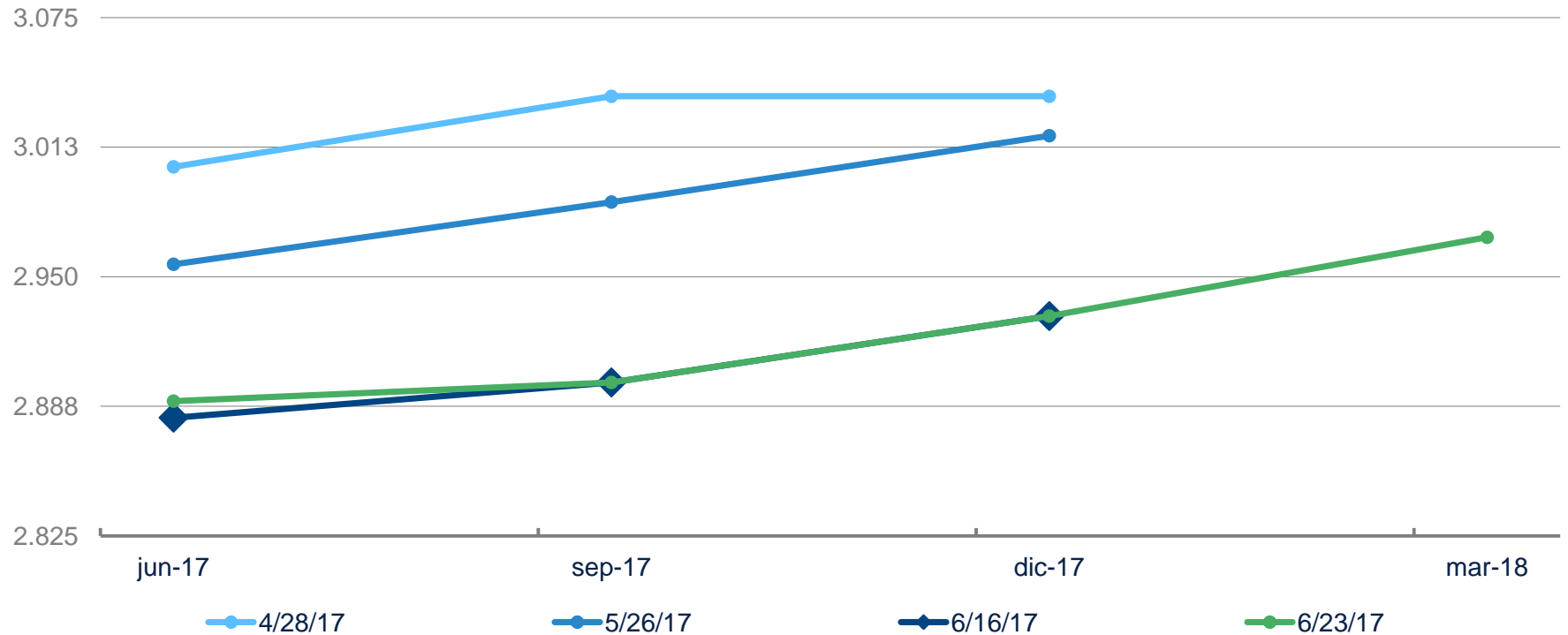
(Daily, %)



Calculated as the difference between 10-Year and 5-Year term premium reported by the New York Fed ACM (Adrian, Crump, and Moench) five-factor, no-arbitrage term structure model incorporating pricing factors.

Futures Declined, Discounting a 8bp Raise in 10YTN Yields Over the Next 3 Quarters

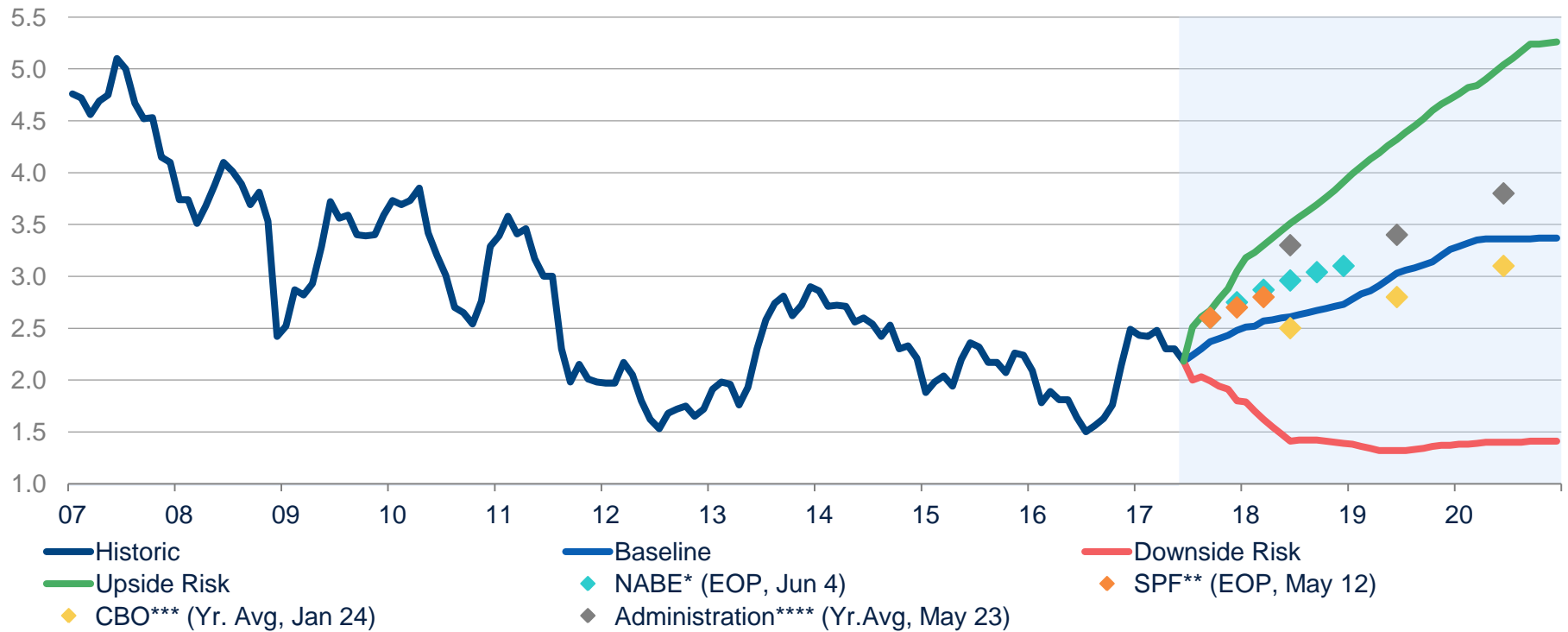
10-YEAR U.S. TREASURY YIELD FUTURES – MOST RECENT, 1 WEEK PRIOR, 1 MONTH PRIOR, 3 MONTHS PRIOR (%)



Source: BBVA Research and Bloomberg

10-Year Treasury Yield Forecasts

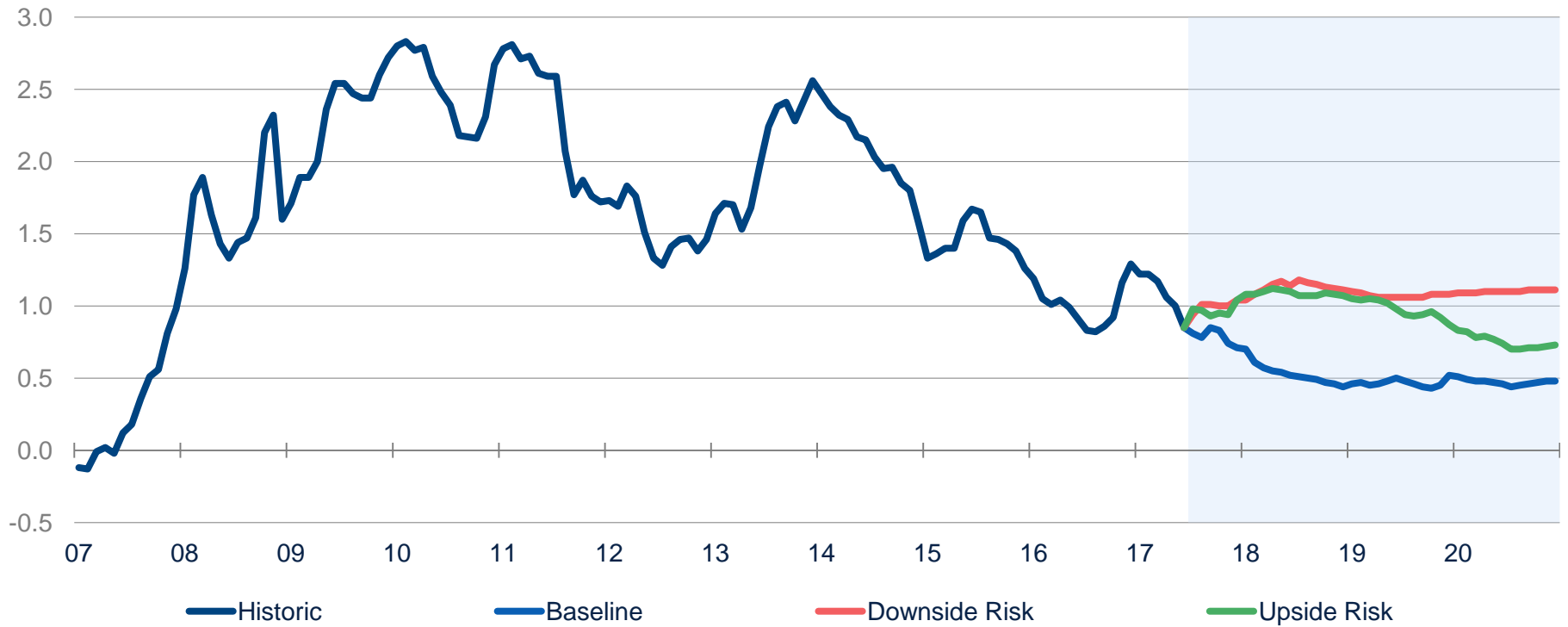
10-YEAR U.S. TREASURY YIELD (%)



* National Association for Business Economics (NABE) Outlook median forecast compiled from a panel of NABE members. Last release date June 4, 2017
 ** Survey of Professional Forecasters (SPF) conducted by Federal Reserve Bank of Philadelphia. Last release date May 12, 2017
 *** Congressional Budget Office (CBO). Last release date January 24, 2017
 **** Administration: 2018 Budget. Last release date May 23, 2017

Yield Curve Slope Forecasts

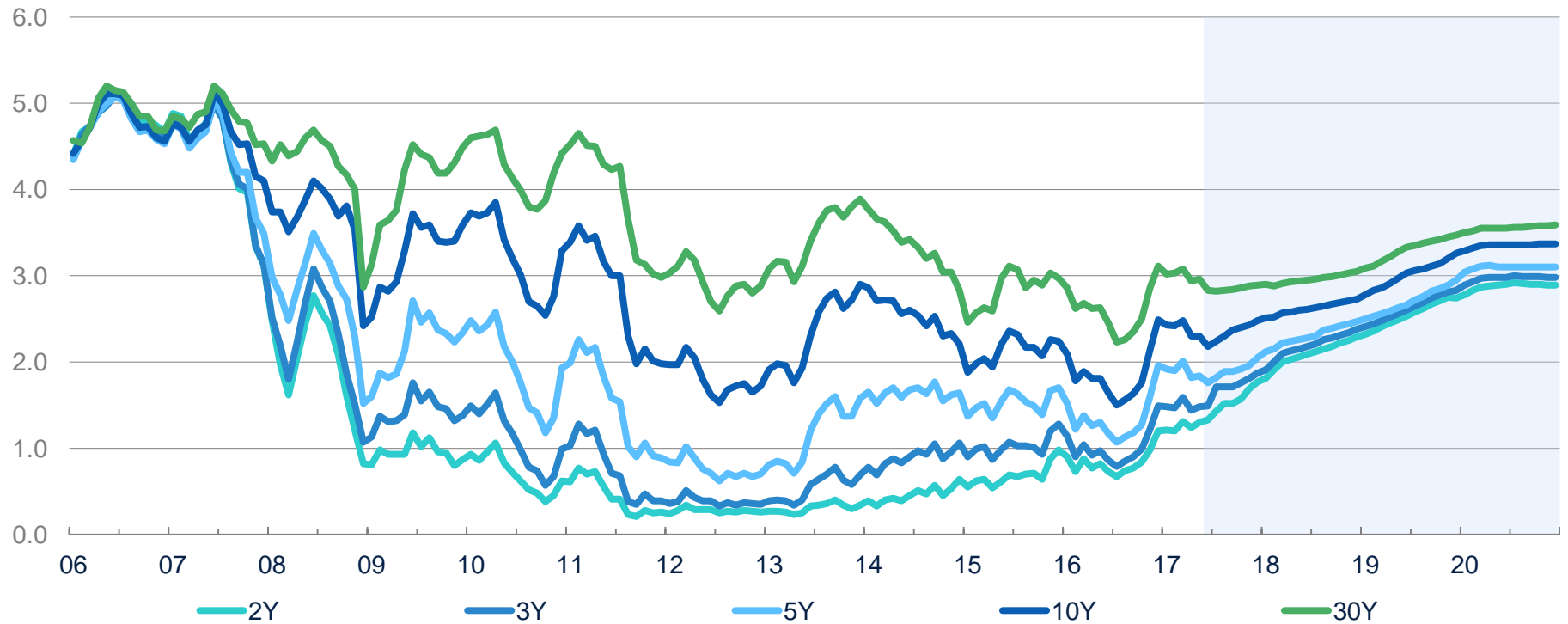
TREASURY YIELD CURVE SLOPE
(%, 10Y-2Y)



Source: BBVA Research, Federal Reserve Board and Haver Analytics

Treasury Yield Curve Baseline Forecasts

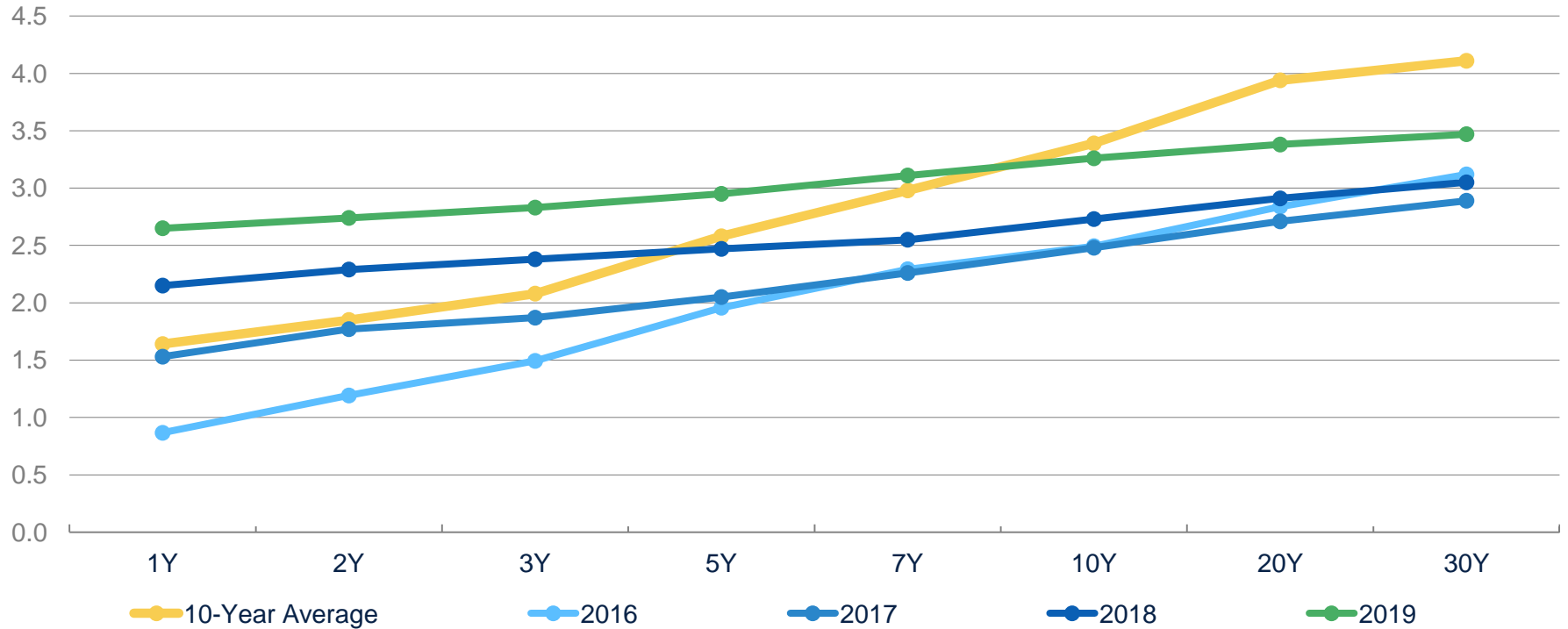
U.S. TREASURY YIELD CURVE
(%)



Treasury yield curve is estimated with a three-factor no-arbitrage model linked to macroeconomic factors measuring growth, inflation and monetary policy. Estimates are based on BBVA research baseline forecast for GDP growth, inflation and Fed funds rate.

Yield Curve Forecasts

TREASURY YIELD CURVE BASELINE FORECAST
(%, End of Period)

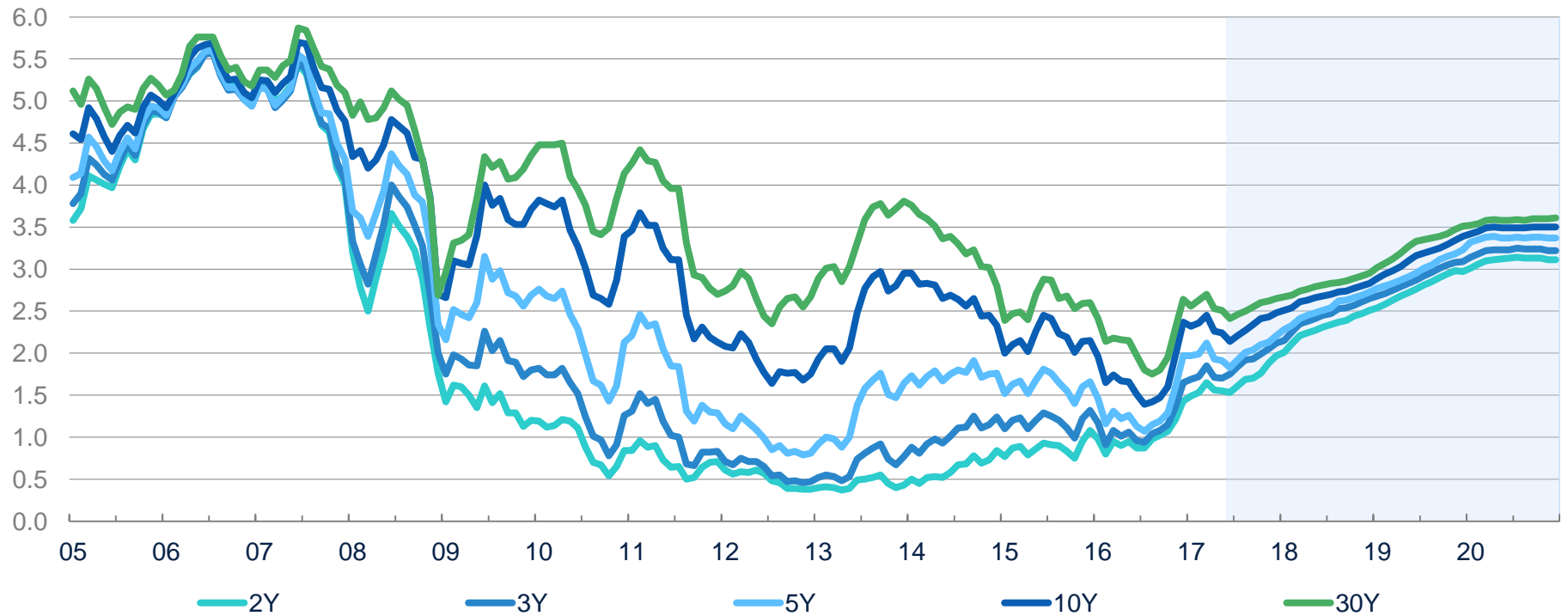


Treasury yield curve is estimated with a three-factor no-arbitrage model linked to macroeconomic factors measuring growth, inflation and monetary policy. Estimates are based on BBVA research baseline forecast for GDP growth, inflation and Fed funds rate.

Swap Curve Baseline Forecasts

U.S. SWAP RATES

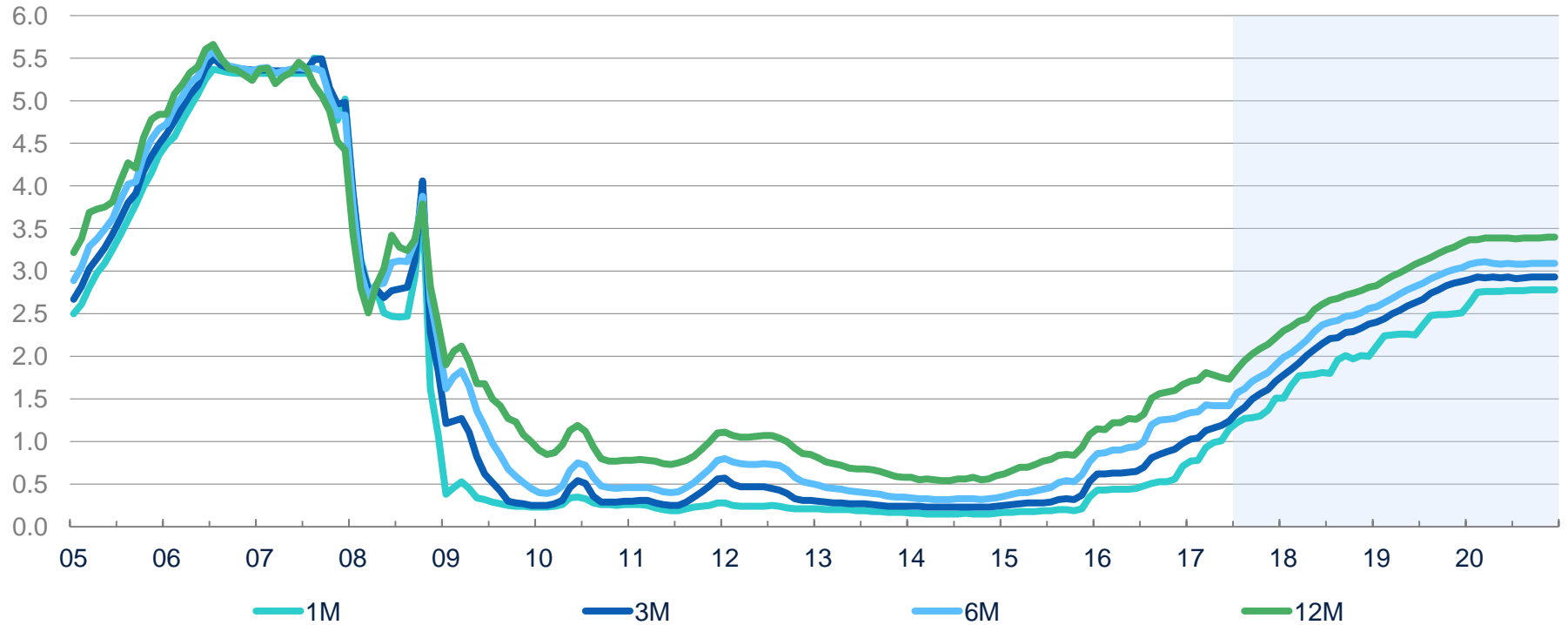
(%)



Source: BBVA Research, Federal Reserve Board and Haver Analytics

LIBOR Curve Baseline Forecasts

U.S. DOLLAR LIBOR RATES
(%)



Source: BBVA Research, Federal Reserve Board and Haver Analytics

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