



Wow – Where do I start?

The Fed & Monetary Policy

At the conclusion of this week’s FOMC meeting, the Fed reinforced prior meeting comments on the economy stating that “economic activity and employment have continued to recover but remain well below their levels at the beginning of the year.” While the Fed made no changes to its current policy stance, the committee continued prior meeting discussion on the topic of asset purchases. Although the current purchase program was unchanged at \$120 billion a month, Fed Chairman Powell stated that policy makers could shift the composition, duration and overall size of the program to provide additional accommodation if needed. Stated differently, the Fed could purchase longer-dated bonds to counter any increase in long term bond yields –essentially capping interest rates on the long end of the treasury curve. The process of using interest rate caps as a monetary policy tool has been referred to as Yield Curve Control (YCC).

Although the Fed is actively looking for ways to possibly pump additional stimulus into the economy, policy makers have been very vocal over the last several weeks about the need for more fiscal stimulus. Their argument – it would be more effective than monetary policy as those most impacted need direct relief/grants not Fed loans. Dallas Fed President Kaplan stated that while “the Fed can ease financial conditions – we can’t replace lost income though; that is uniquely suited for fiscal policy.”

Looking ahead – Any further delay in additional fiscal support increases the likelihood of the Fed’s use of YCC. If market liquidity conditions were to deteriorate again, or the economy were to falter due to a second lockdown, the Fed would have to act in order to sustain market function and provide more monetary accommodation.

Employment situation

The October jobs report was stronger than forecast and September data was revised higher. October’s nonfarm payrolls increased 638k beating street estimates of 580k while the unemployment rate declined to 6.9% from September’s 7.9%. October’s jobs gain was largely driven by increases in leisure and hospitality sector which are considered seasonal and are expected to slow in winter months when outdoor activities normally become less attractive. At this point, the economy has recovered 47% of the jobs lost as the result of the pandemic-induced economic shutdown.

Election

As for this topic, I’m going to heed the advice given to me by a prior boss that suggested I “say more by saying less!”

Enjoy the weekend.

Dennis Zimmerman Jr.
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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
11/09/2020	\$2,010,000	MOUNDRIDGE KS PUBLIC BUILDING COMM REV BQ	2021 – 2035
11/09/2020	\$4,750,000	GRAIN VALLEY MO GO BQ	2021 – 2024
11/09/2020	\$9,000,000	RAYMORE MO GO BQ	2033 – 2040
11/09/2020	\$4,290,000	TREGO COUNTY KS RURAL WTR DIST REV BQ	2021 – 2040

ECONOMIC CALENDAR				
Monday 11/9	Tuesday 11/10	Wednesday 11/11	Thursday 11/12	Friday 11/13
	NFIB Small Business Optimism	MBA Mortgage Applications	CPI MoM/YoY Initial Jobless Claims Monthly Budget Statement	PPI Final Demand MoM/YoY U. of Mich. Sentiment

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	4.75	3 Mo.	0.09
Discount Rate	0.25	0.25	2.25	6 Mo.	0.18
Fed Funds Rate	0.09	0.09	1.56	1-Year	0.23
IOER	0.10	0.10	1.55	2-Year	0.25
1-Month Libor	0.13	0.14	1.77	3-Year	0.27
11th Dist COFI	0.52	0.53	1.13	5-Year	0.37
1-Yr. CMT	0.12	0.12	1.62	7-Year	0.63
Dow	28,323.40	27,772.76	27,492.56	10-Year	0.97
NASDAQ	11,895.23	11,154.60	8,410.63	30-Year	1.78
S&P 500	3,509.44	3,360.95	3,076.78		
Bond Buyer	2.24	2.25	2.86		

Treasuries & New Issue Agencies (<i>Spread to Treasuries</i>)						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC-2 Year		PAC	Vanilla
3 Mo. Bill	0.08					1-Year	N/A	+50
6 Mo. Bill	0.09					2-Year	55	65
1-Year Bill	0.11					3-Year	65	75
2-Year Note	0.15	2	3	3		5-Year	73	85
3-Year Note	0.20	5	11	10	9			
5-Year Note	0.36	10	25	24	22			
7-Year Note	0.59	16	35	30	26			
10-Year Note	0.82	27	56	50	43			
20-Year Bond	1.36							
30-Year Bond	1.59							

MBS Current Coupon Yields	
GNMA 30 Yr.	1.31%
FNMA 30 Yr.	1.31%
GNMA 15 Yr.	0.19%
FNMA 15 Yr.	0.88%

About the Author, Dennis Zimmerman



In 2015, Dennis joined Commerce Bank's Capital Markets Group as Manager of Asset/Liability Services. With his leadership, the Capital Market's ALM team provides asset/liability management consulting services to community banks.

Prior to joining Commerce, he was employed for nearly 26 years at one of the largest privately-held banks in Kansas. In addition to managing a \$775 million bond portfolio, his Asset/Liability Chairman responsibilities included managing margin, interest rate risk, liquidity and capital. Prior to becoming the bank's Finance Treasury Officer, he was a Registered Investment Representative and Supervising Principal in the bank's Capital Markets division.

As a seasoned professional, Mr. Zimmerman offers a comprehensive understanding of bank finance treasury, fixed income, complex financial analysis as well as regulatory and operational awareness. As a banker, he understands the challenge of balancing shareholder expectations within appropriate levels of risk.

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