FLORIDA PRIME

Weekly Commentary

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Short rates held relatively steady at low levels last week, but futures markets indicated expectations for an initial potential tightening late this year—in line with our expectations at Federated. The activity came amid growing signs of a sustainable and strengthening expansion in the U.S. economy, and on somewhat upbeat comments about the economy from Ben Bernanke, who met with the Washington press corps Thursday. At the same time, the Federal Reserve chairman made clear that the central banks remain committed to completing Quantitative Easing Two and maintaining the fed funds target rate at a historically low level for the immediate future.

On the economic front, the week ended on a somewhat puzzling note, with the Labor Department reporting that nonfarm jobs rose only 36,000 in January, well below even the most pessimistic forecasts. But the markets dismissed the report as a product of winter weather-related distortions, focusing instead on the report's more upbeat indicators, including significant upward revisions to December and November payrolls, a spike in wages and a 49,000 jump in manufacturing payrolls, the biggest monthly gain in 12½ years.

The Labor Department report also was out of sync with other surveys that indicated the job market has picked up substantially, notably the Institute of Supply Management's January readings that showed both manufacturing and services employment rising the fastest in years. Other signs of an improving labor market included Challenger's monthly tally of layoffs, which was the lowest for January since the survey started in 1993. Historically, January is the heaviest jobs-cutting month. And ADP's monthly estimate of private payrolls jobs rose a better-than-expected 187,000, the second biggest increase in 12 straight monthly gains, trailing only December's downwardly revised 247,000. Notably, small businesses added 97,000 workers, the most since March 2007.

As for the ISM reports, January's manufacturing reading hit a 7-year high of 60.8, much higher than expected, with broad-based gains in all of its components, led by a 38-year high in employment. The companion services index hit a 5-year high, also well above consensus. In another sign of manufacturing's building strength, December factory orders rose 0.2% vs. expectations for a decline, with total shipments posting a second straight strong monthly gain. Elsewhere, chain-stores sales rose 5% in January, more than double forecasts, with many chains revising up their outlook for the year.

Views are as of February 7, 2011, and are subject to change based on market conditions and other factors.