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Weekly Commentary

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With a relatively light week on the economic calendar, the money markets focused on three non-data events: Federal Reserve Chairman Ben Bernanke's testimony before the House Budget Committee, the surprise resignation of Fed Governor and QE2 skeptic Kevin Warsh and, of course, the goings-on in Egypt. Perhaps the most telling is that when all was said and done, none of these had much impact on the cash yield curve, with the London interbank offered rates closing the week unchanged.

In his appearance before the House committee, Bernanke reiterated comments he made in late January before the Senate Budget Committee—that he didn't see large-scale Treasury purchases creating particular problems for the market or inflation at this juncture, all but assuring QE2 will continue to completion in June and that the fed funds target rate won't be changing anytime soon. He spent a fair amount of time debating the merits of not raising the debt ceiling, a move some House deficit hawks have suggested be taken to curb runaway federal spending. While he agreed steps must be taken to reduce spiraling deficits, Bernanke said capping the debt ceiling "would be very destructive" because it effectively would cause America to default.

Not to suggest that the two events are related, but the day after Bernanke's testimony, the Fed announced that Warsh was resigning at the end of March, years before his term was set to expire. While Warsh voted in November to approve QE2, within a few days, he publicly expressed doubt about the wisdom of carrying through with the $600 billion of Treasury purchases if subsequent events indicated it no longer was needed. The exit of Warsh, a former Wall Street banker who helped the Fed maneuver through the 2008 global financial crisis, is expected to add to the Fed's increasingly dovish makeup. Citing its dual mandate of fostering maximum employment and price stability, the Fed under Bernanke has acted aggressively to try and drive down unemployment, using unprecedented purchases of government debt securities that critics fear may be sowing the seeds of future inflation.

Lastly, the week closed with the resignation of Egyptian President Hosni Mubarak, capping an amazing three weeks in which a popular uprising ultimately toppled his 30-year reign. There was a lot of speculation that the events in Egypt would impact the money markets, but the fact that credit rates held steady likely reflected the fact that exposure to Egyptian debt is relatively minimal. French banks have the most, with exposure to individual bank portfolios no more than 1%.