FLORIDA PRIME

Weekly Commentary

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Short credit rates held at low levels while Treasury bills fell last week as events overseas dwarfed a relatively light week on the domestic front. Four-week T-bills plunged 6.5 basis points to 0.07%, 13-week bills declined 3.5 basis points to 0.11% and 26-week bills dropped 1.5 basis points to 0.155%.

The decline in Treasury yields came amid concerns about Japan, where the devastation caused by a massive earthquake and tsunami threatened its economy and bolstered the safe-haven trade in U.S. Treasury securities. Friday's 8.9 temblor killed thousands and threatened a potential meltdown at at least two nuclear plants, capping an eventful week on the international front that also saw deepening concerns about the euro-zone crisis and Libyan uprising. European Union officials over the weekend worked out another compromise to provide more relief to ailing peripheral countries in an effort to stanch another widening in spreads between the troubled PIIGS (Portugal, Ireland, Italy, Greece and Spain) and the German Bund, while oil prices pulled back in part on worries that demand from Japan will plummet as it works to recover from the biggest quake and tsunami to hit that country in at least 300 years.

On the domestic front, the economic news was mixed on the headlines, but the underlying stories were generally more positive. February's 1% increase in retail sales came in slightly below expectations, but it still represented the biggest increase in four months and January's increase was revised up by more than double original estimates. January's trade gap unexpectedly widened sharply in January, but a third of the rise could be attributed to higher oil prices and volumes—exports actually rose by a record amount, and the broad-based surge in imports, including capital goods, industrial supplies and consumer goods, was indicative of strengthening domestic demand. In fact, even as both January wholesale inventories and business inventories rose more than expected, their inventory-to-sales ratios fell, suggesting companies are struggling to keep up with demand. Still, higher gas prices—now at their highest level in three years—appear to be weighing on consumers, as the University of Michigan's early read of March sentiment plunged, wiping out the gains of the past year.

Views are as of March 14, 2011, and are subject to change based on market conditions and other factors.