FLORIDA PRIME

Weekly Commentary

AUGUST 8, 2011

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London interbank offered rates (Libor) rates inched up throughout the week, as overnight, one-month, three-month, six-month and 12-month rates ended the week at 0.136%, 0.205%, 0.271%, 0.442% and 0.764%, respectively.

A significant event occurred on Friday when Standard & Poor's downgraded the long-term creditworthiness of the United States, taking investors by surprise. Importantly, for money market fund investors, the more important news was that S&P affirmed the short-term rating of the United States at A-1+, which is S&P's highest rating for short-term sovereign debt. Therefore, we believe the downgrade of the United States' long-term debt will have no material impact on Federated's money market funds. In fact, this morning, S&P affirmed that the money market funds to which it has assigned a rating are "unaffected" by the downgrade of the United States' long-term creditworthiness.

Federated will continue to vigilantly monitor market developments and make adjustments to our portfolio management strategy and/or liquidity positions as appropriate. The short-term markets, including the market for repurchase agreements, remain well-functioning at this time. Federated has not made any adjustments for repurchase agreements collateralized by U.S Treasury or government agency securities. Federated's cash management experience and commitment to quality investment management are hallmarks of our business. We remain committed to our disciplined investment management approach that they have come to expect from Federated.

While asset markets were transfixed by the drama surrounding the compromise deal on raising the debt ceiling and cutting the budget deficit, the economic fundamentals that typically drive monetary policy fundamentals revealed a U.S. economy still struggling to escape the soft patch it entered during the winter. If there is a negative to the resolution of the debt-ceiling stalemate, it is that the sizeable cuts proposed as part of the resolution will be implemented during a period when the economy is still struggling to recover and sustain growth. From an interest-rate perspective, the likely outcome will be that rates will remain at the current extremely low levels through at least midyear 2012.
A range of data reported during the week shows that the economy continues to struggle, although there was some much-welcome improvement in employment data.

Manufacturing
The Institute for Supply Management reported that its manufacturing index for July came in at a disappointingly flat 50.9. While a reading above 50 indicates monthly expansion in business conditions, at the slowest rate so far of the recovery. New orders were at 49.3--the first below-50 number since June of 2009. Backlog orders were down four full points to 45.0--the lowest reading since April 2009.

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Non-Manufacturing Activity

Declines in new orders and backlog orders impacted the Institute for Supply Management non-manufacturing composite index for July, which rose only slightly lower to a 52.7 from 53.3 in June. The index reached a five-year high of 59.7 in February. A number above 50 indicates expansion. The survey represents nearly 400 firms from 60 sectors across the U.S., including agriculture, mining, construction, transportation, communications, wholesale trade and retail trade. New orders, which were in the 60s as recently as March, fell nearly two points to 51.7. Backlog orders were well below 50, down 4-1/2 points in July to reach 44.0.

Employment

There was some improvement in the employment picture as payrolls processor ADP estimated private payrolls rose 114,000 in July, compared with consensus estimates for a gain of only 100,000 jobs and versus June's downwardly revised increase of 145,000 jobs. In July, small- and medium-sized businesses added 58,000 and 47,000 jobs, respectively, positive job-creating trends that typically get picked up by the Labor Department's establishment survey with a lag.

Later in the week, the Labor Department reported that weekly new claims for unemployment benefits dropped 1,000 to a seasonally adjusted 400,000—the lowest level in four months. The previous week's figure was revised upward from 398,000 to 401,000. The four-week average, a less volatile figure, dropped for the fifth straight week to 407,750. That suggests there is a downward trend in layoffs.

On Friday, the Labor Department reported a better-than-expected July job report—although the bar was set low, it was the best employment report in three months—as payroll jobs increased by 117, 000, following a revised 46,000 and 53,000 increase in June and May, respectively. Private sector growth was somewhat healthier as private nonfarm payrolls grew 154,000 in July, after an 80,000 and 99,000 increase in June and May, respectively. Government employment declined by 37,000 in July, following a 34,000 decline in June.