FLORIDA PRIME

Weekly Commentary

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Short credit rates last week continued their two-month move up over mounting concerns that that the EU's sovereign debt crisis was spreading from smaller peripheral countries to Italy and Spain. This nervousness was abetted by growing signs of economic weakness in the United States, where fears of a potential double-dip rose notably amid discouraging readings on August manufacturing and employment.

London interbank offered rates (Libor) inched up a basis point across the board, with one-month, three-month, six-month and one-year rates ending the week at 0.22%, 0.30%, 0.47% and 0.78%, respectively. At the same time, the flight-to-safety trade pushed yields on 4-week and 13-week Treasuries down 2.5 and 1 basis points, respectively, to 0.01% and 0.045%. The yield on the 26-week bill did climb 1.5 basis points, to 0.08%, but still remained near its 52-week low of 0.06%.

There is a little doubt that the markets are wrestling with the seeming inability of euro-zone leaders to adequately address debt issues and with a U.S. economy where the debt-ceiling imbroglio wracked consumer and business confidence at a time the economy already was struggling to work through a soft patch. EU leaders continued to struggle to reach an agreement on ways to stem the crisis, with both Germany and France opposing the issuance of common euro bonds for the 17 countries that share the euro. We view this as a long-term issue for the euro, not a short-term liquidity problem.

Back home, U.S. markets shrugged off better-than-expected reports on July industrial production and leading economic indicators, and instead focused on August readings that showed jobless claims climbing back above 400,000 and the bellwether Philadelphia manufacturing gauge plunging to its lowest level since March 2009, when the economy was still in recession. Producer and consumer price reports also showed inflation ticking up, though core levels remained within—but at the high end—of the Fed's target range.

Much attention will be focused this week, and particularly this coming weekend, on Jackson Hole, Wyo., where the world's central bankers and leading economists will gather at the Kansas City Fed's annual confab. Fed Chairman Ben Bernanke is slated to speak on Friday, and markets will be watching for hints of a new round of quantitative easing, and more broadly, for signs of coordinated global action to address the economic weakness.

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Views are as of August 22, 2011, and are subject to change based on market conditions and other factors.