Weekly Commentary

FLORIDA PRIME

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Short credit rates keep inching up, even as Treasury yields keep falling. Three-month London interbank offered rates (Libor) last week rose nearly 2 basis points to 0.32%, 6-month Libor rose 1.29 basis points to 0.48% and one-year Libor rose 1.15 basis points to 0.80%. But 4-week Treasury bills closed their weekly auction at 0.0%, 13-week bills went for 0.015% and 26-week bills were bid at 0.045%. The divergent movement in credit and government yields reflected continuing uncertainty about the EU's sovereign debt woes, global growth and a weakening U.S. economy, feeding the flight-to-safety trade.

Much of the week's attention focused on Fed Chairman Ben Bernanke's speech at the annual Kansas City Fed gathering in Jackson Hole, Wyo. Bernanke steered clear of any specific talk about potential further quantitative easing, though he did say next month's meeting of policymakers would be extended by a day to "allow for a fuller discussion'' of possible monetary tools to aid the economy—a sign he may be seeking to buy time to build consensus and lobby dissenting members of the Federal Open Market Committee who have stated that they feel the Fed already has done enough. Much of Bernanke's speech played up a more optimistic long-term outlook for the economy, but only if White House and Congress get their act together and address looming deficit ills in a way that doesn't impede near-term growth yet brings longer-term fiscal deficits closer to balance.

The week's economic news was mixed. July durable goods orders jumped 4%, double expectations, as vehicle orders surged the most in nine years due to the rebound from the Japanese supply disruptions. Notably, July's order book rose, good news for future production gains. And the University of Michigan's final read on August sentiment ticked up a notch, though it still remained at recession levels. But already weak Q2 GDP was revised downward to a 1% annualized rate from the initially estimated increase of 1.3%, and Q1 growth also was trimmed further to a meager gain of 0.4%, marking the weakest six-month period since the recession ended. July new home sales also fell more than expected, with the number of new homes put on the market at a record low.

This is a big data week, with a lot of attention focusing on Friday's jobs report for August. Market expectations have been revised downward to a gain of 75,000 nonfarm jobs, with private payrolls expected to reach around 100,000. Recent jobless claims have moved above 400,000 again, though the latest week's increase, largely driven by a temporary strike by Verizon workers, wasn't as bad as whisper numbers had suggested. But the labor market has exhibited few signs of strengthening, and President Obama is scheduled to unveil a new jobs plan next Tuesday, the day after Labor Day.

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