FLORIDA PRIME

Weekly Commentary

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The news over the weekend helped calm some of the nervousness about Europe's sovereign debt troubles, as Germany and French leaders vowed to support European banks and France and Belgium came to the rescue of a Franco-Belgian bank with substantial exposure to bonds in the most troubled EU countries. As we wait to see how these measures impact the credit markets this week—the euro was rallying Monday—last week saw a continuation of trends that put upward pressure on credit cash rates while keeping government rates near record lows.

While the one-month London interbank offered rate (Libor) held at 0.24%, 3-month and 6-month Libor rose 2 basis points each to 0.39% and 0.58%, respectively, while one-year Libor was up 3 basis points to 0.89%. At the same time, government paper remained a premium, with the flight-to-safety trade creating shortages that put overnight repo rates at 5 to 10 basis points for Treasury and government collateral. Four-week and 13-week Treasury bills remained at 0.00% and 0.02%, respectively, while 26-week bills rose 2.5 basis points to 0.06%.

The week's economic news surprised to the upside. Both the manufacturing and services ISMs came in above expectations and at levels suggested continued albeit modest expansion. And Friday's report on September payrolls easily bested consensus forecasts. Nonfarm payrolls rose 103,000, and the prior two months were revised up 99,000. Both the average workweek and wages increased. And the unemployment rate stayed at 9.1% vs. expectations for a slight tick up. Still, while the jobs report and the ISMs were indicative of an economy that was growing and not on the precipice of recession, the pace of growth is such that there's little reason to think that the Fed will move off its easy-money, low-rate trajectory anytime soon.

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Views are as of October 10, 2011, and are subject to change based on market conditions and other factors.