FLORIDA PRIME

Weekly Commentary

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There were mildly encouraging signs out of Europe last week, led by positive comments from Germany's Angela Merkel and France's Nikolas Sarkozy about addressing bank issues by month's end. Slovakia also gave the green light to strengthening a rescue fund for ailing European Union members, bringing all 17 EU members on board.

Meanwhile, Fitch Ratings also acted to downgrade the long-term debt ratings of several European banks while putting Morgan Stanley's short-term rating on watch—moves that essentially reflected the agency's decision to peel back the government backing that historically had been implicit in its ratings of bank debt, putting Fitch in line with other ratings agencies. As we've noted previously, Federated Investors has minimal exposure to this bank debt, largely because of steps we took to shorten maturities, downgrade certain names and to eliminate others from our list of investable securities as the sovereign-debt crisis first began to unfold.

There wasn't much news on the economic front last week, but what did cross the transom was generally positive. September retail sales surprised to the upside, with both headline and core sales (ex-autos) up 1.1% and 0.6%, respectively, well above consensus. August sales also were revised up significantly, making for a robust back-to-school sales season that historically is highly correlated with holiday sales. The pick-up in sales came despite sour consumer sentiment—the University of Michigan's initial take on October sentiment unexpectedly slipped, with both consumers' outlook and view of current conditions worsening. This divergence between what consumers say and what they do has been constant this year, with spending holding up even as sentiment remains mired in recession levels.

Another interesting note on the week was the release of the minutes from the last Federal Reserve policymakers meeting, marked by the adoption of "Operation Twist''—the effort to nudge down long rates by stretching out the average maturing of the Fed's portfolio through the sale of short-term holdings and the purchase of longer-term instruments. The minutes showed a relatively vigorous discussion of other potential measures to stimulate an economy that the Fed felt could remain weak the rest of the year, including potentially reducing or eliminating the interest the Fed currently pays on bank reserves it holds—a move that could put downward pressure on money rates. But support for additional measures was mixed and, given signs of stronger growth since the policymakers met, possibly moot.

On the cash front, short credit rates continued to inch up, while government rates bounced around record lows. While the one-month London interbank offered rate (Libor) again held at 0.24%, 3-month and 6-month Libor rose a basis point each to 0.40% and 0.59%, respectively, while one-year Libor was up 2 basis points to 0.91%. On the government end, four-week Treasury bills rose a basis point to 0.01%, 13-week bills slipped half a basis point to 0.015%, and 26-week bills slipped 1.5 basis points to 0.045%.

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Views are as of October 17, 2011, and are subject to change based on market conditions and other factors.