# FLORIDA PRIME

# Weekly Commentary

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Short credit rates continued their run up as relatively good news on the domestic economic front was overshadowed again by worries about Europe. Three-month, six-month and one-year London interbank offered rates (Libor) rose three basis points each on the week to a respective 0.52%, 0.73% and 1.05%. Meanwhile, Treasury bills continued to hover near record lows, pushing the so-called TED Spread—the gap between three-month Libor and three-month T bills (0.015% in last week's auction)—to 50 basis points, its highest since spring 2009.

The gap has everything to do with Europe, where the inability of euro-zone leaders to reach consensus on a way to deal with weak peripheral country sovereign debts began to spill over into the French and German debt markets, with yields rising on weaker-than-expected demand for government debt. Moody's highlighted the concerns in a report over the weekend that said the escalating crisis was threatening sovereign ratings across the region, though the ratings agency also said its base scenario still sees the euro-zone avoiding widespread defaults. Almost as if on cue, the Moody's release coincided with signs that European leaders were coalescing around a plan to tighten oversight of member countries' fiscal policies as part of a broader plan to create a more robust bailout fund to aid struggling countries.

Back at home, weekend reports suggest the holiday shopping season got off to an unexpectedly strong start, capping a week of relatively good economic news. While Q3 GDP was revised lower to 2%, the drop-off was almost entirely due to an outright decline in inventory levels as demand outpaced production. In fact, private inventory investment was revised to a negative for the first time since Q4 2009, which could be good news for the year's final quarter as retailers and producers may be forced to rebuild inventories and ramp up production to meet relatively robust consumer and business demand.

Elsewhere, the FOMC minutes showed that members see "moderate" growth ahead, reduced chances of recession and recognition of but not too much concern about "possible adverse effects" on the U.S. if European strains intensify, mainly because the capital and liquidity positions of U.S. banks have improved. Also, durable goods orders slipped in October but core orders ex-transportation surprised to the upside; November consumer sentiment hit its highest reading since June; October personal income rose more than expected; jobless claims stayed below 400,000; and existing home sales surprised in October, rising almost solely on single-family units.

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**Views are as of November 28, 2011, and are subject to change based on market conditions and other factors.**