FLORIDA PRIME

Weekly Commentary

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Overnight repo rates continued to trend up last week even as London interbank offered rates (Libor) continued to drift down.

Overnight Treasury repo rates averaged 13 basis points, up from 9 the week before, while overnight mortgage repos averaged 17 basis points, up from 12 in the prior week. There are varying opinions about the reason for this uptrend, including an increase in Treasury supply from last Tuesday's refunding settlement and the desire by dealers to hold Treasuries for collateral on their balance sheets. Libor, on the other hand, slipped across the board, by a basis point each on one-month and six-month to 0.26% and 0.77%, respectively, and two basis points each on three-month and one-year to a respective 0.53% and 1.08%. This downtrend began in late December, when the European Central Bank completed a three-year long-term refinancing operation that helped reduce uncertainty about the liquidity positions of European banks. Another three-year operation is slated for later this month.

On the economic front, a week of relatively bullish domestic economic news—and better-than-expected news on the European and China fronts, too—was capped by a January jobs report that wowed the markets, with a 243,000 jump in nonfarm payrolls nearly doubling consensus expectations and a two-tick drop putting the jobless rate at 8.3%, the lowest since February 2009 and a notch above the low end of the Fed's central tendency projection for all of 2012. The robust report has many Wall Street economists questioning the validity of the Fed's pledge to keep interest rates low until late 2014—a debate that's music to our ears here in the world of money markets, where we've been living with record low short rates for more than three years.

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Views are as of February 6, 2012, and are subject to change based on market conditions and other factors.