FLORIDA PRIME

Weekly Commentary

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Short credit rates fell across the continents last week despite Standard & Poor's downgrade of the credit ratings of nine euro-zone countries, including France; a breakdown in talks to deal with Greece's debt; and, over the weekend, a slight downgrade in the top credit rating on the temporary euro-zone bailout fund.

One-month, three-month, six-month and one-year London interbank offered rates (Libor) slipped 2 basis points each, closing the week at 0.28%, 0.56%, 0.79% and 1.11%, respectively. Euro Libor (Libor denominated in euros) fell back even more, continuing their sharp pullback from last fall's highs after Western central banks acted in a coordinated fashion to pump liquidity into stressed euro markets. One-month and three-month euro Libor closed down a respective 8 basis points and 6 basis points to 0.83% and 1.22%. Six-month and one-year euro Libor fell 5 basis points each to 1.50% and 1.83%.

S&P's moves were not unexpected, potentially explaining why reaction in both the credit and equities markets was muted. European and U.S. stock markets actually rallied with the start of trading this week (European exchanges were open Monday while the U.S. markets were closed for Martin Luther King, Jr. Day.), encouraged by a relatively strong reception to bond issues by Spain and Italy, which were among those to be hit by S&P downgrades, and by more encouraging economic signs in the U.S. and in China, which over the weekend reported slower but better-than-expected fourth-quarter GDP growth.

Still, the S&P downgrades reflected ongoing concerns about euro-zone leaders' abilities to adequately address member countries' debts. Worries continue to center on whether Europe's economy may enter recession—reports last week suggested weakening industrial activity across the euro zone, and German economic sentiment remained in negative territory though it did rise to a 6-month high—and on the severity of the downturn if one occurs. S&P said it would like to see EU leaders discuss growth strategies in addition to fiscal austerity measures as a way to deal with the debt crisis.

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Views are as of January 17, 2012, and are subject to change based on market conditions and other factors.