FLORIDA PRIME

Weekly Commentary

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U.S. short credit rates held relatively steady and euro Libor (London interbank offered rates denominated in euros) continued to contract as the money markets appeared to be shifting their focus a bit from ongoing euro-zone worries to improving U.S. economic fundamentals. Parts of the European bank paper market are reporting renewed inflows as massive intervention by Western central banks to boost liquidity slowed a flight to dollars. At home, increases in rates on both Treasury bills and overnight repurchase agreements indicate that cash investors are becoming comfortable enough to begin moving out on the curve to capture slightly higher yields.

To be sure, yields remain extremely low. Four-week, 13-week and 26-week Treasury bills closed the week at 0.015%, 0.025% and 0.06%, respectively, while overnight repos traded at 0.18%, up a tick from the prior week but still nearly half their 52-week high. The markets will be closely monitoring this week's policy-setting Federal Open Market Committee meeting, which as part of Fed Chairman Ben Bernanke's push for more transparency, is supposed to provide individual committee member targets (supposedly without naming names, however) for the benchmark federal funds rate going out to 2015. The target rate has been effectively at zero since December 2008, and current policy states it's likely to remain there at least through mid-2013. We wouldn't be surprised if committee members signal that the rate is likely to remain at its historic low beyond that stated deadline.

On the economic front last week, jobless claims posted their largest weekly decline since 2005 and, at 352,000, were at their lowest level since April 2008. A key index of housing activity rose to its highest level since June 2007 on broad-based increases across regions, while prospective buyer traffic rose to a four-year high and existing home sales rose a third straight month. Manufacturing activity also posted its best gain in a year, continuing an uptrend that has seen production grow at an above-average post-recession rate. December CPI and PPI reflected continued moderation from last spring's spike in food and energy prices, with core prices falling within the Fed's implied range. Speaking of the implied range, as part of its new transparency push, the Fed this week also is expected to begin releasing explicit targets for inflation.

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