FLORIDA PRIME

Weekly Commentary

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U.S. short credit rates held relatively steady last week, despite Federal Reserve policymakers' rather dramatic statement—at least dramatic for Fed-speak—extending the central bank's commitment to a zero to 0.25% target range for fed funds from "at least'' mid-2013 to no earlier than "late 2014.'' The lower-for-longer shift in policy was significantly more dovish than markets had been expecting—the futures market, as were we, was thinking along the lines of early 2014.

But less than two hours later after Wednesday's lunch-time statement, accompanying data provided as part of the Fed's move to be more transparent about its thinking indicated that, like so many newspaper stories, the headline was more sensational than the substance. What we learned is that of the 19 Fed regional bank presidents and governors, three foresee tightening beginning this year, another three see it occurring in 2013 and five see it coming in 2014. In addition, several members believe once tightening begins, it will come in increments well above the typical quarter-point moves.

Of course, only 12 of the 19 actually vote on the policy-setting Federal Open Market Committee (FOMC), including Fed Chairman Ben Bernanke, whose influence is substantial and whose bias when it comes to tightening appears to be one of delay. But it is worth noting that a fair number of Fed officials think otherwise and that the "exceptionally low levels'' language regarding the benchmark fund's rate doesn't necessarily mean the current zero to 0.25% range. For example, two of the three who see tightening starting this year put the fund's rate at 1%; three of the six who see it coming by next year put the rate at 1% or higher by year-end 2013; and nine of the 17 who see it moving by 2014 put the range from 0.50% to 2.75%. Moreover, the individual member survey's longer-run benchmark rate ranged from 3.75% to 4.50%. So there seems to be some light at the end of the rate tunnel, even if it's dim at this juncture.

On the economic front, last week's news was mixed. The fourth-quarter flash estimate of GDP fell short of expectations on relatively weak final demand. Also, the Conference Board's leading indicators rose less than expected, a December dip closed out the worst year on record for new home sales, and fourth-quarter corporate earnings remained blah. On the positive side, December durable goods orders rose at their fastest pace in a year, with orders ex-defense and transportation double consensus and unfilled orders up the most since March 2008. And the University of Michigan's final read on January consumer sentiment rose a fifth straight month to its highest level in 11 months.

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Views are as of January 30, 2012, and are subject to change based on market conditions and other factors.