FLORIDA PRIME

Weekly Commentary

FEBRUARY 21, 2012

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Short credit rates continued to inch down in the past week on more economic reports that were better-than-expected to in-line with consensus, and on an apparent favorable resolution in the latest round of the ongoing Greek debt saga. The bulk of the spread tightening along the cash-yield curve occurred early in the week, both in European bank paper and in the interbank market, where one-month, three-month and six-month London interbank offered rates (Libor) fell a basis point each to 0.24%, 0.49% and 0.75%.

The money markets had little reaction to last Wednesday's release of the minutes from the Federal Reserve's January meeting. Policymakers extended the Fed's commitment to keeping the benchmark funds rate at historic lows to the end of 2014 from the previous mid-2013 target. The lack of movement in short rates likely reflected that there really wasn't anything new or surprising in those minutes. Much of what was discussed in the minutes already had been released publicly as part of the Fed's efforts to be more transparent in its thinking and, for the first time, to forecast individual member expectations of future rate movements.

Perhaps a little more surprising was the muted response to a Moody's announcement a day later that it may cut the credit ratings of 17 major firms with global capital market operations, as well as ratings of 114 European financial institutions. The ratings agency said it's undertaking the reviews for possible downgrades because the institutions face evolving challenges not currently reflected in their ratings, such as more fragile funding conditions, wider credit spreads, increasing regulatory burdens and a more difficult operating environment. Libor was unmoved and credit spreads were unchanged following Moody's announcement. We'll continue to monitor this development closely.

G40461-19 (2/12)

Views are as of February 21, 2012 and are subject to change based on market conditions and other factors.