FLORIDA PRIME

Weekly Commentary

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While longer-term interest rates saw some upward movement in the aftermath of last week's policy-setting Federal Open Market Committee (FOMC) meeting, short U.S. credit rates barely budged and were almost unchanged by the end of the week. Euro Libor rates (London interbank offered rates denominated in euros) also showed little change.

In its post-meeting statement, the FOMC acknowledged positive developments in the economy, but also continued to warn—in slightly less dour language than in previous statements—of potential pitfalls in the economic recovery. While the FOMC statement remained mum on the prospects for another round of Quantitative Easing, the positive data coming in from all angles seemed to make that step less likely for the foreseeable future.

Fed policymakers shrugged off the recent spike in gasoline prices, which caused the annualized Consumer Price Index to rise to 2.9% in February, typically above the Fed's comfort zone. But the core rate was much more subdued and Fed Chairman Ben Bernanke noted that elevated gas prices were expected to keep headline inflation higher only on a temporary basis. Higher gas prices were, in fact, suppressing across-the-board price increases because they cut into Americans' ability to make other purchases.

Also last week, all eyes were on the health of the banking sector, as the Fed released the results of its stress test of banks midweek. In keeping with the week's tone of cautious optimism, 15 of the 19 largest banks passed the exercise, a simulation of the banks' ability to survive in a severe economic crisis.

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Views are as of March 19, 2012, and are subject to change based on market conditions and other factors.