FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) remained firm for another week, with three- and six-month steady at 0.47% and 0.74% respectively, and one-year Libor remaining at 1.07%. Due to month-end supply constraints, overnight repo rates were up, trading in the 20-22 basis point range. Short-term Treasuries, however, were down slightly across the board.

Last week’s economic data releases were largely negative, led by a surprisingly weak jobs report from the Labor Department. May’s payroll employment gains of 69,000 were the smallest increase in a year, below even the lowest estimates. The report suggested the labor market recovery has lost significant steam in recent months, as April's figure was also revised downward and hours worked dipped.

The Conference Board’s Consumer Confidence Index fell for a third straight month, contrary to expectations for a gain, and contrary to the pickup in last week's University of Michigan Consumer Sentiment Index. The Confidence Index’s present situation component fell for the first time in four months, but income expectations edged up modestly. The findings were indicative of a still-expanding but sluggish economy, and differ from Michigan’s for a few reasons. Michigan’s sentiment gauge is highly sensitive to conditions in the financial markets, while the Consumer Confidence Index is highly sensitive to changes in the labor market, which slowed this spring. A big negative in the Conference Board’s survey was an uptick in “jobs hard to get.”

The news wasn’t entirely bad. Despite mixed signals from regional surveys, May’s Institute for Supply Management Manufacturing Index was surprisingly good. While the headline dipped slightly more than consensus—it fell to 53.5% from 54.8% vs. a forecast of dip to 54%—the index remained entrenched in expansion territory, with the critical new orders component jumping nearly two points to 60.1% for the strongest rate of monthly growth since April 2011.

Not surprisingly, all of this negative economic data led to increased speculation the Federal Reserve would have to look more favorably on prospects for another round of quantitative easing.