FLORIDA PRIME

Weekly Commentary

JUNE 11, 2012

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates (Libor) remained virtually unchanged for the week, with three- and six-month steady at 0.47% and 0.74% respectively, and one-year Libor remaining at 1.07%. Overnight repo rates were down slightly after a surge at the end of May, but remained at elevated levels. Short-term Treasuries, however, were up slightly across the board.

A month of generally downside economic surprises, capped by May's jobs report, may be weighing on economic activity. The latest Duke/CFO Magazine survey found confidence in the economy has cooled, prompting a reduction in capital expansion plans — over half of the companies continued to prefer to hoard cash rather than invest, in part because of weak consumer demand. Elsewhere, the Sentix Investor Confidence survey slipped to its lowest level this year as European investors were less positive about U.S. economic conditions. A decline in current conditions also caused the RBC Consumer Outlook Index to slip by the most in 10 months, though the average consumer was little concerned with either the European crisis or the approaching fiscal cliff. Discover's U.S. Spending Monitor also fell for the first time in five months as fewer respondents felt their financial situation was improving. All these negative indicators sparked speculation that the Federal Reserve would look more favorably on the idea of another round of stimulus. But Fed Chairman Benjamin Bernanke, in mid-week testimony before Congress, indicated only that the Fed remained in a watchful holding pattern. The Fed still saw signs of moderate economic growth, but remained ready to step in should the situation warrant intervention.

There were some positive indicators. U.S. wholesale gasoline prices have collapsed from the peak of $3.30 at the end of March to around $2.60, and year-over-year gas prices are seeing their first decline since 2009. The previous times gasoline prices were down from the prior year were in '98, '03, '06 and '09, and each case marked important turning points in consumer spending. Although May payrolls clearly disappointed, most leading indicators of employment are at or near multiyear highs. The Institute for Supply Management non-manufacturing composite index remained at a level consistent with moderate growth, edging up in May contrary to expectations for a decline.

G40461-19 (6/12)