FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates (Libor) remained relatively static for yet another week, with three-month holding at 0.46%, six-month down less than one basis point to 0.73%, and one-year Libor steady at 1.07%. Short-term Treasuries were mixed, with one-month up two basis points to 0.08%, three-month up two basis points to 0.10%, six-month steady at 0.15%, and one-year steady at 0.20%. Overnight repo rates were up, very slightly, for the week.

Minutes from the June meeting of the Federal Reserve's Federal Open Market Committee (FOMC) revealed that a larger number of Fed officials are now considering additional easing if economic conditions weaken further. Investors, however, seemed to be looking for stronger signals from the FOMC that additional stimulus was coming, and markets actually fell on release of the minutes. The FOMC's stronger language was, however, as an indication the FOMC recognized the signs softening recovery and new measures may arrive sooner rather than later. Other central banks acted to further ease in the past week, including Brazil, Japan and Korea, whose unexpected rate cut was its first since February 2009. And China's second-quarter slowdown is expected to add more pressure to ease.

There were some signs of economic improvement, including a surprise plunge in weekly jobless claims to their lowest since March 2008, a surge in auto sales, and indications that the housing recovery was still strong. Nevertheless, consumer sentiment was off in the latest surveys, falling to the lowest levels in months. There were also new signs that uncertainty associated with the looming "fiscal cliff"—the scheduled expiration of the Bush tax cuts and mandatory spending cuts—was likely to dampen consumer spending and business investment, and thus GDP growth, in this year's second half.

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