FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were steady for the week, with three-month at 0.31%, six-month at 0.53%, and one-year Libor at 0.86%. Short-term Treasuries were down across the board, with one-month down six basis points to 0.07%, three-month down three basis points to 0.06%, six-month down two basis points to 0.13%, and one-year down two basis points to 0.16%. Overnight repo rates were down slightly for the week, as well.

The October Federal Reserve's Federal Open Market Committee minutes showed a number of Fed officials supported additional asset purchases in 2013 after Operation Twist concludes at year's end— a move that may be announced at the mid-December meeting. There also was broad agreement to consider modifications to the forward guidance language, but less agreement on what to do. The minutes showed only minor changes in policymakers' collective assessment of economic conditions. There was little concern over inflation pressures, and there were indications that many favor moving from a calendar-date target for a Fed policy exit to "data thresholds," i.e., setting a target for unemployment and inflation under which the Fed would begin to remove accommodation.

Indeed, inflation does not yet seem to be a problem. Contrary to expectations for a gain, October producer prices fell at both the headline and core levels, in part because of falling energy prices and because of declining auto prices linked to the model-year switchover. Headline consumer prices also came in below expectations on falling energy prices, while the core consumer price index rose an in-line 0.2%. What remains to be seen is whether Hurricane Sandy's hit on refineries and production may cause energy prices to spike back up this month, wiping out October's improvement. October retail sales were weaker than expected, with much of the decline likely due to special factors, including Sandy's virtual shutdown of the populous East Coast and payback from the initial spurt in iPhone 5 sales.