FLORIDA PRIME

Weekly Commentary

JANUARY 7, 2013

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

December's Federal Open Market Committee (FOMC) minutes suggested the Federal Reserve (Fed) might be moving toward a slightly less accommodative policy path than markets had anticipated. According to the minutes, several members thought that it would probably be appropriate to slow or to stop purchases well before the end of 2013, citing concerns about financial stability or the size of the balance sheet. But this view is contingent upon a rebound in growth, and Fed growth forecasts have been overly optimistic in recent years. Additionally, 2013's voting members are likely to be more dovish than last year's. If the Fed stops buying around June or September, it will be because the economy is getting stronger. That would be a bullish, not a bearish, development.

London interbank offered rates (Libor) were largely unchanged for the week, with three-month steady at 0.31%, six-month down a basis point to 0.50%, and one-year steady at 0.84%. Short-term Treasuries were up, with one-month up six basis points to 0.06%, three-month up six basis points to 0.07%, six-month up one basis point to 0.11%, and one-year steady at 0.15%. Overnight repo rates were down slightly for the week.

Last week's last minute (actually overtime) deal to resolve the fiscal cliff standoff may have settled the issue of taxes—there are still the items of sequestered defense and health care spending, the debt ceiling and entitlement reform for the next Congress to deal with. The continuing battles in Washington could put some speed bumps in the way of the recovery, notably the expected showdown in February when Congress will need to raise the $16.4 trillion federal borrowing limit. The fiscal cliff deal may have kicked the can down the road; it's unclear how much it will help with the bottom line—the deal will raise an estimated $600 billion of revenue over 10 years, while the Congressional Budget Office estimates spending will increase $10 trillion over the same period, but there are $10 in tax increases for every $1 in spending cuts in the bill.