FLORIDA PRIME

Weekly Commentary

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As we get our footing in the new year after combatants in Washington squeaked through the fiscal cliff deadline, it would be nice to believe that the nation's capitol was now going to get out of the way of the recovery. That might be wishful thinking. As contentious as the recent lame-duck fiscal-cliff discussion was between President Obama and Congress regarding tax policy, upcoming discussions in Washington regarding the debt ceiling, the automatic sequester spending cuts, and the federal government's continuing spending resolution could very well roil the markets in the short term. And some of the compromises made on the fiscal cliff will soon filter through to the recovery—paychecks across the country have seen the impact of higher federal tax rates, and workers immediately began cutting back spending, which will in turn lead to slower growth.

There were some good signs, however. Wholesale inventories rose more than expected in November, backed by drugs, which had the biggest jump since July 2008, and higher petroleum prices. But sales soared, pushing the inventory-to-sales ratio to its lowest in six months and the setting the stage for an inventory rebuild. And public sector jobs looked to be coming back, as well. In a recent poll, 57% of cities said they were "better able to meet financial needs" in 2012 than in 2011, the first time a majority reported an improvement in that metric since 2007. Housing remained a highlight as well, with vacancy rates for apartments falling to a twelve-year low, a good sign for sales of single-family houses.

London interbank offered rates (Libor) were down slightly for the week, with three-month down less than a basis point to 0.30%, six-month steady at 0.50%, and one-year down two basis points to 0.82%. Short-term Treasuries were down slightly as well, with one-month down two basis points to 0.04%, three-month steady at 0.07%, six-month down one basis point to 0.10%, and one-year down one basis point to 0.14%. Overnight repo rates were down slightly for the week.

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Views are as of January 14, 2013, and are subject to change based on market conditions and other factors.