FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates (Libor) were down, very slightly, for the week, with three-month steady at 0.31%, six-month down less than a basis point to 0.51%, and one-year down a basis point to 0.84%. Short-term Treasuries were more down clearly, with one-month down five basis points to 0.01%, three-month down five basis points to 0.04%, six-month down five basis points to 0.09%, and one-year down five basis points at 0.13%. Overnight repo rates were down slightly for the week as well.

Federal Reserve policymakers last week announced a new round of quantitative easing and laid out very specific—and somewhat liberal—parameters for sticking with an extremely loose monetary policy. The policy-setting Federal Open Market Committee voted to replace the expiring "Operation Twist" program (in which proceeds from the sale of short-term securities were used to purchase longer-term securities) with $45 billion in monthly purchases of longer-term Treasuries no longer financed through the sale of existing holdings. This new QE4, aimed at keeping long-term rates at historically low levels, will further expand a Fed balance sheet that already has more than tripled in size since 2008, and comes on the heels of September's QE3—the open-ended $40 billion monthly purchases of agency mortgage-backed securities, which also will continue.

More surprising, though, was the Fed's move to a conditions-based monetary policy that set explicit targets for unemployment and inflation. Specifically, policymakers said the current federal funds target rate of 0% to 0.25%—which it previously said would likely be warranted through at least mid-2015—will remain in place at least as long as the jobless rate remains above 6.5% (it was 7.7% in November), projected core inflation stays within a half point above the Fed's 2% long-term goal (it's slightly below currently) and inflation expectations remain anchored. In other words, the Fed stated its willingness to tolerate higher inflation if that's what it takes to spur growth and drive down unemployment. The new measures were also an indication the Fed is worried enough about the economy and global financial markets that it thinks it needs to stick with unprecedented easing.

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