FLORIDA PRIME

Weekly Commentary

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Short-term rates have remained relatively firm over the past few weeks, despite concerns over additional purchases in the market by the Federal Reserve. Overnight rates had been expected to drop down into the low teens or even single digits, but were hovering at 20-22 basis points, and closed the month in the 18-20 basis point range, which is, all things considered, a very slight change. Treasuries have gotten more expensive, a function of people seeking out the safety of the government market, and not knowing what to expect over year-end from a credit perspective, with the fiscal cliff continuing to hover over the economy.

As 2012 turns into 2013, all eyes are on Washington and that cliffhanger. As of this writing, things don't look good, with last minute talks breaking down over Social Security and tax rates on upper-income earners. Should the parties work out some sort of interim measure that allows for more time to come to a balanced solution, short-term market conditions would not suffer too much damage. If, however, the stalemate continues, and nothing is done to stave off the consequences of the cliff, the combined effects of tax increases and spending cuts could inflict some wounds on the recovery that would take some time to heal.

London interbank offered rates (Libor) were unchanged for the week, with three-month steady at 0.31%, six-month steady at 0.51%, and one-year steady at 0.84%. Short-term Treasuries were down, with one-month down two basis points to 0.00%, three-month down five basis points to 0.01%, six-month down two basis points to 0.10%, and one-year steady at 0.15%. Overnight repo rates were down slightly for the week, as well.

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Views are as of December 31, 2012, and are subject to change based on market conditions and other factors.