FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were down slightly for the week, with three-month down two basis points to 0.28%, six-month steady at 0.46%, and one-year down a basis point to 0.75%. Short-term Treasuries were down overall, with one-month down four basis points to 0.07%, three-month down two basis points to 0.11%, six-month down two basis points to 0.12%, and one-year steady at 0.16%. Repo rates saw a couple of days of soft trading during the week, but the trend seemed to end by the end of the week, as Treasury-backed repos traded around 0.16% and mortgages at 0.20%. There may still be some days of soft rates in our future, though, as we are expecting averages in the mid-teens for the next month.

Last week featured two days of not very surprising testimony before Congress from Federal Reserve (the Fed) Chairman Ben Bernanke. Bernanke reiterated his supportive stance on the Fed's accommodative policy, defending the Fed's ability to manage its balance sheet and the risks of the holdings to the government. He agreed that the Fed needed to review its exit strategy, but the testimony was as expected—the current level of Fed asset purchases is here to stay for the foreseeable future.

We also saw additional comments from Federal Open Market Committee (FOMC) members. The January FOMC minutes sparked a reasonable degree of speculation in the markets that the Fed might be considering tapering off or stopping entirely its long-term asset purchases under the quantitative easing program earlier than had been expected. The minutes reported that "many" participants had been concerned about costs and risks, and "several" were worried that it might complicate the exit strategy, with some worried about the effects on market functions, and some about the potential that the Fed might be exposed to capital losses when the program unwinds. On the surface, it seemed like a good deal of disagreement on policy, but it's important to watch the sentiments of the actual voting members of the committee. In this case, the voting members are unwavering in their support of the Fed's ongoing purchases. The next FOMC meeting is likely to provide more light on the Fed's exit strategy, important because any talk of higher rates is based on the Fed getting out of the easing business.