FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) ticked up very slightly last week on the turmoil in Cyprus. Banks in the country were forced to close after a controversial proposal to levy a "bail-in" tax on depositors to help the government come up with the billions of euros it needs to secure an international bailout from the European Central Bank. A full meltdown was averted, if only temporarily, with a deal to tax uninsured deposits over 100,000 euros in the country's second biggest bank, which will then be dismantled. Deposits below 100,000 euros would be spared. Cyprus is a very small part of the EU economy, and Federated has no direct (or indirect for that matter) exposure to Cyprus banks, and much of the impact will land on Russian oligarchs who used the country as a tax haven. We are monitoring the situation very carefully, though, because it raises the question of the security of deposits in EU banks, and the potential fallout across the rest of the continent.

Here at home, Federal Reserve (the Fed) policymakers last week said they were sticking with all-in accommodation in an effort to prop up growth, drive down unemployment and provide a backstop to fiscal policies that the central bank deemed to be somewhat restrictive. The latest Federal Open Market Committee (FOMC) statement did contain some acknowledgement of the recovery, saying the labor market has shown signs of improvement, a likely nod to the higher run rate on nonfarm payrolls and the sustained decline in unemployment insurance claims. At the same time, however, the policy-setting committee reiterated that unemployment remains elevated, and expressed worries about sequestration's potential negative impact on growth by saying "fiscal policy has become somewhat more restrictive." The job-market improvements and fiscal concerns were captured by the FOMC's revised longer-term jobless and GDP forecasts, each of which was lowered slightly. In the end, the FOMC found no reason to revise its monthly purchases of $85 billion of longer-term Treasury and agency mortgage-backed securities, and did not put any potential end date for this latest round of quantitative easing. It also repeated that it will adhere to its 0% to 0.25% federal funds target as long as the unemployment rate remains above 6.5% and projected inflation runs no more than a half point above its 2% target, benchmarks that, based on its latest forecast, would suggest no change in the target rate until deep into 2015.

Three-month London interbank offered rates (Libor) were steady at 0.28%, six-month up a basis point to 0.45%, and one-year steady at 0.73%. Short-term Treasuries were down slightly, with one-month steady at 0.07%, three-month down two basis points to 0.07%, six-month steady at 0.11%, and one-year steady at 0.14%. Repo rates were down slightly for the week.

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Views are as of March 25, 2013, and are subject to change based on market conditions and other factors.