FLORIDA PRIME

Weekly Commentary

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Three-month London interbank offered rates (Libor) were steady at 0.28%, six-month down a basis point to 0.43%, and one-year steady at 0.73%. Short-term Treasuries were down slightly, with one-month down three basis points to 0.04%, three-month steady at 0.07%, six-month steady at 0.11%, and one-year steady at 0.14%. Repo rates were up for the week.

Banks in Cyprus reopened after nearly two weeks to relative calm despite a significant haircut for large depositors, junior and even senior bondholders. According to government officials, those depositors with accounts larger than 100,000 euros may now be expected to accept losses of up to 60%, depending on how much analysts determine is needed to prop up the bank's reserves. This additional levy on deposits amounts to a much larger sacrifice than initially estimated as part of the European rescue package. There was a common understanding, whether true or not, that Cyprus was being used as a tax haven for wealthy Russians. There also seemed to be much less sentiment in the European Central Bank for protecting Russian interests, and as such, Cyprus may be more of an anomaly than a precedent-setter.

Here at home, February new-home and pending sales slipped, but the year-over-year increases remained solid. Last month's drop-off was mainly attributed to historically tight inventories—a lack of supply that, coupled with rising demand, acted to boost prices. Durable goods orders jumped an above-consensus 5.7% in February, and January's decline was upwardly revised. Transportation orders were the major driver, but core capital goods orders—nondefense ex-aircraft—rose at a 31.4% annual rate in this quarter's first two months, up from a 20.4% rate in 2012's fourth quarter, and could be seen as an indication businesses are growing more confident about the outlook. Consumers seem to be showing more confidence as well. The Commerce Department reported that consumer spending increased 0.7% in February after an upwardly-revised 0.4% rise in January, up from the previous estimated increase of 0.2%. At the same time, however, there were some negatives, with the Conference Board's confidence gauge plunging more than eight points to 59.7 in March (vs. the consensus 67.5), mirroring the large drop-off in the University of Michigan's preliminary sentiment reading for the month. Expectations about the future fell sharply, a finding survey administrators attributed to the sequester, noting similarity with concerns in late 2012 about the fiscal cliff. It remains to be seen whether the parties in Washington can work out some sort of compromise that could take this concern off the table.

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