FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

After a string of fairly uneven economic reports, the Bureau of Labor Statistics reported Friday that April payrolls rose by 165,000, beating expectations. The report revised February and March's payroll numbers higher by a combined 114,000 jobs, as well. The unemployment rate also unexpectedly fell to a five-year low of 7.5% in April, from 7.6% in March, 7.7% in February and 7.9% in January. The drop in unemployment was for the right reasons—household employment rose by 293,000 jobs in April after falling by 206,000 jobs in March, and the civilian labor force rose by 210,000 workers in April after plunging by 496,000 workers in March. That reduced the number of unemployed by 83,000 workers in April, meaning the economy was actually adding jobs last month. At the same time, initial weekly jobless claims, an important leading economic and employment indicator, fell to their lowest level since January 2008, at 324,000 claims for the week ended April 27, 2013. The reports calmed some fears that markets were heading into another spring downturn, as they have at this time for the past three years.

The positive jobs numbers added support to the idea that the Federal Reserve's (the Fed) Federal Open Market Committee (FOMC) would have to soon begin planning a modification, if not yet an end-game, for its quantitative easing (QE) purchases of longer-term Treasuries and agency mortgage-backed securities, currently running at a monthly pace of $85 billion. Internal debate had seemed to be heating up within the FOMC, with more members arguing it was time to trim back on easing. However, the latest FOMC meeting message, released Wednesday, seemed to go in a different direction. The statement was very similar to previous statements, but this time included an additional sentence saying the Fed was prepared "to increase or reduce" the pace of its purchases to maintain appropriate policy accommodation, an indication the internal debate within the FOMC may not be so much about when to start tapering their monthly Treasury and agency securities purchases, but whether they may need to start adding a little more QE to support the recovery. It's more likely, though, that the language in the statement was more of an attempt to influence market rates than it was a policy statement, and that the Fed's next move on easing is likely to be a reduction, rather than expansion, of purchases—possibly in the second half of 2013.

U.S.-dollar London interbank offered rates (Libor) were largely unchanged for the week, with three-month steady at 0.28%, six-month steady at 0.43%, and one-year down a basis point to 0.70%. Short-term Treasuries were down slightly, with one-month down two basis points to 0.02%, three-month steady at 0.05%, six-month down a basis point to 0.09% and one-year down a basis point to 0.11%. Repo rates remained elevated last week, in the mid teens. This was notable, as repo rates had been expected to drop when Treasury bill supply was cut back after the government collected more tax revenues than had been expected in the first quarter of the year, and less collateral was available for the repo markets.

Views are as of May 6, 2013, and are subject to change based on market conditions and other factors.