FLORIDA PRIME

Weekly Commentary

MAY 13, 2013

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Initial jobless claims fell again this past week, dropping the four-week average to its lowest level since November 2007. Coming after April's surprisingly strong employment numbers, the weekly data indicates the pace of layoffs is easing despite an apparent slowdown in real GDP growth in the current quarter, a sign companies see the slowing as somewhat temporary and are responding by cutting hours and hiring at a less rapid pace—both of which were evident in the April employment report—rather than increasing the pace of layoffs.

The positive jobs numbers and increasing confidence in the markets added to expectations that the Federal Reserve (the Fed) would soon turn to planning out a strategy for ending its purchases of longer-term Treasuries and agency mortgage-backed securities, which continue to run at a monthly pace of $85 billion. Fed officials do seem to be getting more vocal about the end of quantitative easing (QE), with indications that easing may wind down gradually, based on improvements in the recovery, and the Fed may adjust the process as new data on jobs and inflation rates comes in, rather than setting out a strict timetable based on the calendar alone. The most recent Federal Open Market Committee (FOMC) statement, which included new language indicating the Fed was prepared "to increase or reduce" the pace of its purchases to maintain appropriate policy accommodation, raised some initial interest among Fed watchers, who had wondered whether the Fed was in fact looking at increasing QE measures. Last week, though, Philadelphia Fed President Charles Plosser indicated that the new language in the statement should not be taken as a move toward additional easing, but was instead meant as a message to markets that the Fed could be flexible in managing its easing programs based on market conditions. Indications continue to be that the first modifications to easing could be seen in the second half of 2013, as long as the recovery continues to cooperate. In the coming week, Fed officials are expected to make a series of speeches that could clarify the Fed's expectations and plans further.

London interbank offered rates (Libor) were unchanged for the week, with three-month steady at 0.28%, six-month at 0.43%, and one-year at 0.70%. Short-term Treasuries were down slightly, with one-month steady at 0.02%, three-month down a basis point to 0.04%, six-month down a basis point to 0.08% and one-year steady at 0.11%. Repo rates fell into the single digits last week.

G40461-19 (05/13)

Views are as of May 13, 2013, and are subject to change based on market conditions and other factors.