FLORIDA PRIME

Weekly Commentary

JUNE 3, 2013

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All eyes in the money market world are now on the latest economic releases, as the Federal Reserve (the Fed) and its Federal Open Market Committee (FOMC) have opened up the discussion as to how and when the Fed will unwind its monthly quantitative-easing purchases of $85 billion of Treasury bonds and agency mortgage-backed securities. The Fed has made it clear that retreat from easing, and relief from this low-rate environment, will be pegged to sustained growth in the recovery. The Fed will base its withdrawal on data rather than sentiment, making each new economic release that much more significant.

Increasingly, those releases are showing a growing strength in the recovery. The Chicago Purchasing Manager's Index for May surprised, jumping from slight contraction territory to a 14-month high of 58.7 in May, the biggest one-month jump since 1983. Every component contributed, led by surges in production and employment. Elsewhere, the Richmond Fed's manufacturing survey improved but continued to point to contraction, consistent with the May prints of the Philly Fed and Empire surveys, both of which also remain in the same territory but with positive longer-term outlooks.

And housing seems to be carrying more than its weight in the recovery. The Case-Shiller price index jumped 3.9% in the first quarter, the most in eight years, and was up 10.2% from a year ago, the fastest pace since Q1 2006. Prices have recovered to levels last seen in Q4 2003, with all 20 cities in the gauge rising in March for a third straight month, half by 2% or more.

The respective Conference Board and Michigan consumer confidence and sentiment gauges surprised to the upside again in May, with the former reaching its highest level since February 2008 and the latter its highest level since July 2007. The 14.3-point rise in the confidence index over the past two months represented its biggest back-to-back monthly increase since December 2011—there have been only 14 other cases since 1967 with two-month gains of at least this magnitude. Meanwhile, the Michigan reading shows sentiment moving out of the recessionary zone where it's been stuck since 2008. At the same time, however, consumer spending unexpectedly slipped 0.2% in April, while March was revised down to just a 0.1% increase. Real consumer spending is on pace to rise just 1.5% this quarter, and has been rising only 2% annually during the recovery versus an historical 4% average during expansions.

London interbank offered rates (Libor) were mixed for the week, with three-month up a basis point at 0.28%, six-month down a basis point to 0.41%, and one-year steady at 0.69%. Short-term Treasuries were mostly unchanged, with one-month steady at 0.03%, three-month steady at 0.04%, six-month steady at 0.07% and one-year up two basis points to 0.14%. Because of downward pressures on supply, repo and overnight markets continue to scrape along at rates not seen for close to two years, down at times during the past month to just two to three basis points, and expectations were that rates would remain low until there is some more relief on the supply front.

G40461-19 (06/13)

Views are as of June 3, 2013, and are subject to change based on market conditions and other factors.