FLORIDA PRIME

Weekly Commentary

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After Federal Reserve Chairman Ben Bernanke's statements on the future of quantitative easing two weeks ago, markets across the board went into upheaval at even a hint of a suggestion that the economy might have to fly on its own without the support of the Fed's massive purchases. Fed officials attempted to calm the waters last week with assurances that easing measures won't be pulled back without sustained progress in the recovery, even suggesting that additional easing was ready if warranted, and by the end of last week, it seemed that markets had gotten a chance to get their bearings and calm down. All eyes this week will be on Friday's jobs report, with the ironic twist that a good number could lead to renewed concerns the Fed will be encouraged to pull back on the easing reins.

Despite all the turmoil in the bond markets, the money market yield curve remained stable. London interbank offered rates (Libor) were basically unchanged for the week, with three-month steady at 0.27%, six-month steady at 0.41%, and one-year up a basis point to 0.69%. Short-term Treasuries were mixed, with one-month steady at 0.02%, three-month steady at 0.04%, six-month down a basis point to 0.10% and one-year up two basis points to 0.15%. Repo rates started last week at low levels but saw some bump up on Friday due to typical quarter-end pressures. Also potentially providing support at the end of the week was the $59.4 billion dividend payment from Fannie Mae to the U.S. Treasury, which was believed to have removed cash from the repo market, resulting in less demand for collateral.

The end, or beginning of the end, of easing is tied to the recovery continuing on its upward trajectory, and there's a growing sense that we've avoided the mid-year slump seen in the past few years. April's Case-Shiller gauge of home prices rose a 15th straight month and more than expected to its highest level since March 2004, providing further proof that the housing sector has staying power. May's pending home sales index surprised, surging 6.7%, the most in more than three years vs. consensus expectations for a 1% gain, to put it at its highest level since December 2006. And May's new and existing home sales also rose well above forecasts to their highest levels since July 2008 and May 2007, respectively. Consumer confidence was up, as well. June's third straight monthly increase surprised to the upside and put the Conference Board's monthly gauge at its highest level since January 2008, while the University of Michigan's sentiment gauge rose to a better-than-expected 84.1, a few ticks from May's final six-year high of 84.5 and up from June's preliminary 82.7.

First quarter GDP growth, however, was revised sharply lower, to 1.8% from the previous 2.4%, putting average annual growth after 15 consecutive quarterly increases at 2.1%, well below the historical mean of 3.2%. The biggest contributors to the downward revision were real personal consumption expenditures (PCE) and non-residential structures. PCE was revised down to a 2.6% annual rate, which is still the fastest PCE growth in two years, indicating consumers were unperturbed by higher payroll taxes.

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Views are as of July 1, 2013, and are subject to change based on market conditions and other factors.