FLORIDA PRIME

Weekly Commentary

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Last week, in a Q&A session after a speech in Boston to a group of economists, Federal Reserve Chairman Ben Bernanke calmed markets concerned with Fed policy. The U.S. recovery, he said, is likely to continue to need life support from the Fed's quantitative easing programs "for the foreseeable future." Bernanke's comments seemed to be an effort to be even clearer, if possible, that the Fed did not intend to pull out support from the economy unless, and until, the Fed thought it was ready to grow on its own. In his comments, Bernanke also noted the Fed will continue its extremely accommodative policy for a long period of time, and said the unemployment rate trigger for raising rates could actually end up being lower than the Fed's earlier benchmark of 6.5%. He also said that inflation is not a concern, and is currently too low, a departure from his remarks in June about the dangers of inflation. This does not represent a change to the schedule for Fed tapering of easing measures—a reduction in Treasury and agency mortgage-backed securities purchases may still come as soon as the September meeting of the Fed's Federal Open Market Committee. But it does reinforce the idea, oft-repeated by the Fed, that while easing measures may begin to fade back, tapering is not tightening.

On the economic front, we are continuing to see data releases indicative of a recovery that has entered a new phase, with each positive release increasing the likelihood that tapering could begin in September. Manufacturing seems to be looking up. After a healthy reading of 54.2 in February, the Institute for Supply Management's (ISM) U.S. manufacturing index plunged to 49.0 in May, implying an economic contraction. But in June, the ISM rebounded sharply to 50.9, putting manufacturing back into expansion territory. And factory orders rebounded, as well. After plummeting by 4.7% in February, U.S. factory orders have bounced sharply in the past two months, rising by an upwardly revised 1.3% in April and a stronger-than-expected 2.1% in May. Auto sales also continue to remain strong. After some softness during March and April, sales have resumed their ascent, soaring by 76% from 9.02 million units at the cycle trough in February 2009 to 15.89 million units annualized in June. In the coming days, attention is expected to turn to second-quarter 2013 corporate earnings reports as the next bellwether of the recovery.

London interbank offered rates (Libor) were virtually unchanged for the week, with three-month steady at 0.27%, six-month down a basis point to 0.40%, and one-year steady at 0.69%. Short-term Treasuries were down, with one-month down a basis point to 0.02%, three-month steady at 0.04%, six-month down a basis point to 0.07% and one-year down three basis points to 0.12%. Repo rates remained, as expected, in very low territory last week.

Views are as of July 15, 2013, and are subject to change based on market conditions and other factors.