FLORIDA PRIME

Weekly Commentary

JULY 29, 2013

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This week will bring another meeting of the Federal Reserve's Federal Open Market Committee (FOMC) with the usual accompanying statement, but this time without the regular press conference afterward from Fed Chairman Ben Bernanke. All eyes will be watching the FOMC statement for clues as to when and how the Fed plans to begin the drawdown in its quantitative easing bond-buying program, through which the central bank is purchasing $85 billion of Treasury and mortgage-backed securities each month. Given the current uncertainties in the markets, it is not likely the Fed will make any moves at this week's meeting, and instead will wait for an economic uptick before it begins to implement its tapering strategy. This FOMC meeting also comes on the same day second-quarter GDP figures are to be released, and two days before the latest unemployment numbers are announced. As Bernanke and other Fed officials have emphasized, the exit from quantitative easing will be a data-dependent decision, and the Fed will only begin to taper if the economy is demonstrating sustainable strength, something that might be clearer with more time and more data in hand. Still, there is some sense that Bernanke would personally like to see tapering of quantitative easing measures start before he retires from the Fed at the end of January 2014, so it's likely the Fed will introduce a partial taper, possibly $20-30 billion per month to start, at the two-day FOMC meetings in either September or December.

No matter what the Fed decides to do in regard to quantitative easing, it is very unlikely the Fed will raise the federal funds rate before 2015 at the earliest, especially as the economy does not seem to be making substantial progress toward the Fed's employment and inflation goals. According to the Labor Department, initial jobless claims rose last week by 7,000, hitting a seasonally-adjusted 343,000. The claims number for the week before was revised upward, to 336,000 from the previously-reported 334,000. Core inflation on a year-over-year basis is running at well-behaved levels of 1.7% for the wholesale Producer Price Index (PPI) and at 1.6% for the retail Consumer Price Index (CPI) through June. The core Personal Consumption Expenditure (PCE) index—the Federal Reserve's preferred measure of inflation—is running at a very benign 1.1% year-over-year through both April and May, which is at the low end of the Fed's 1.0% to 2.0% target range and well below its 2.5% inflation trigger for adjusting rates.

London interbank offered rates (Libor) were mixed for the week, with three-month up a basis point to 0.27%, six-month steady at 0.40%, and one-year down less than a basis point to 0.67%. Short-term Treasuries were virtually unchanged, with one-month up a basis point to 0.02%, three-month steady at 0.03%, six-month steady at 0.07% and one-year steady at 0.11%. Repo markets, as expected, remained under pressure, ending the week at low levels.

G40461-19 (07/13)

Views are as of July 29, 2013, and are subject to change based on market conditions and other factors.