FLORIDA PRIME

Weekly Commentary

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Short rates moved little prior to the Labor Day holiday as the markets awaited a slew of data and potential policy action in the weeks ahead. Overnight repo rates held in the low-to-mid single digits, while the cash yield curve flattened slightly on the longer end as credit markets reacted to potential military action in Syria and increased levels of merger & acquisition activity. Six-month and one-year London interbank offered rates dipped a basis point each to 0.39% and 0.67%, respectively.

September could bring more movement, kicking off with this Friday's report on August jobs and, more notably, by the September 17-18 Federal Open Market Committee meeting, where we think policymakers will begin to taper the $85 billion in monthly quantitative-easing bond purchases. How fast and how much remain debatable, but as we've said, we believe this move will begin to bring some relief to the stuck-in-mud money rates as more supply begins to enter the market as the Fed begins its exit.

On the economic front, the week's news was mixed. On the positive side, the Conference Board's monthly gauge of consumer confidence rose more than expected to 81.5 and July was revised up as well. Growth in second-quarter GDP also was revised up significantly to 2.5% from an initially estimated 1.7% increase. On the disappointing side, July durable goods plunged 7.3%, primarily on the volatile aircraft and defense series, and July personal income and consumer spending each rose a scant 0.1%.

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