FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Short rates remained at very low levels last week as market attention focused on this week's meeting of Federal Reserve policymakers. Rates on overnight Treasury and agency mortgage-backed securities ticked up to 7 and 8 basis points, respectively, but government and credit rates as measured by Treasury bills and the London interbank offered rates (Libor) slipped across their respective curves.

On the economic front, the news flow was slowed and mixed. At 1.2% year-over-year, the increase in core producer prices remained well below the Fed's target, and import prices also were flat. The percentage of small businesses planning to hire hit a 6½-year high, according to the monthly National Federation of Independent Business survey, and the pace of inventory restocking by businesses picked up in July. On the downside, consumers remained cautious as August retail sales rose a less-than-expected 0.2% and the University of Michigan's initial take on September sentiment slipped to its lowest level since April.

The market still expects the policy-setting Federal Open Market Committee (FOMC) to initiate plans to modestly reduce the Fed's $85 billion of monthly Treasury and agency purchases following this week's meeting, most likely in the $10 billion range. This should help to nudge short rates up by bringing more supply into the market. However, in a surprising weekend development, economist Lawrence Summers—who many thought may have the inside track on replacing Ben Bernanke when his chairmanship expires next January—pulled his name out of contention, making Janet Yellen the presumptive front-runner. Yellen is considered more dovish than Summers and thus more likely to maintain the Fed's ultra-accommodative policies. Longtime Fed member Donald Kohn also is thought to be in the running and to be more likely aligned with Bernanke's policies than Summers would have been.

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