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Weekly Commentary

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A week after Federal Reserve policymakers shocked the markets by putting off tapering, there were signs short-term interest rates were stabilizing at low levels with a slight bias toward rising. Rates on 4-week, 13-week and 26-week Treasury bills rose from 1 to 2 basis points and a test of the Fed's reverse overnight repo program also nudged up overnight rates though they remained firmly in the single digits. The test of the reverse repo program, which ultimately will be used to move assets off the Fed's balance sheet once quantitative easing ends, is scheduled to run through January and should help establish a floor on overnight rates at levels set by the Fed and not the banks.

The week's economic news was more of the same: housing's recovery continued though at a slower pace as higher mortgage rates dampened activity; consumer confidence and sentiment slipped apparently on concerns about Washington's budget shenanigans but still remained at levels consistent with moderate growth; and consumer spending rose a bit while personal income and savings rose slightly more, indicating households are still in a deleveraging mood but are spending enough to keep the economy growing. All in all, the modest economic activity shows little sign of creating the sort of bottleneck pressures that would act to move rates up in any significant fashion anytime soon.

Because the Fed will remain open during a government shutdown, we would expect the ongoing Washington drama to have no effect on the money markets beyond those created by media headlines. A potentially bigger looming issue is the October 17 debt-ceiling deadline; we'll keep you apprised as events unfold.