FLORIDA PRIME

Weekly Commentary

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Federal Reserve policymakers met last week and, unlike September's surprise no-tapering decision, no psychological damage was wrought on the markets in the aftermath. In other words, the Fed did as was expected—nothing. There were some minor tweaks in the policy-economic outlook language that some viewed as slightly hawkish, but those views were nuanced at best. With Janet Yellen's nomination to replace Ben Bernanke as chairman most likely coming to a vote before the Senate in December, and with another potential fiscal showdown coming in January, the Fed is unlikely to change anything on the quantitative-easing front until March's meeting.

As for short rates, they've settled back to pre-October crisis levels with a slight bias higher, with one-month to three-month Treasuries trading in the 4 to 5 basis points range and overnight repos in the 4 to 6 basis points range. Helping nudge rates up a tad has been the Fed's test of its plan for using overnight reverse repos as way to manage its eventual exit from extraordinary monetary accommodation by selling overnight securities in the marketplace. While the Fed's rates are low—the first batches were sold in September at 1 basis point, more recent sales have been at 2 basis points and this week they are set to move to 3 basis points (the Fed can go as high as 5 basis points)—they have acted to set a floor in the market by forcing banks and other overnight repo dealers to raise rates to attract buyers. This test is set to expire in late January.

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Views are as of November 4, 2013, and are subject to change based on market conditions and other factors.