FLORIDA PRIME

Weekly Commentary

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There was good news on the domestic economic front last week, with October nonfarm payrolls rising a much better-than-expected 204,000 (the consensus was 120,000) and both September and August revised up a combined 60,000. This put the three-month average at 202,000, within the range many observers think will allow the Fed to start tapering. Moreover, October's ISM services gauge shot up a full point to 55.4, mirroring the strong move in its companion manufacturing index the week before, and the flash estimate on third-quarter GDP growth came in at 2.8%, well above forecasts.

Despite the relatively robust news on the U.S. economy, short rates were pretty much unchanged at low levels. Overnight repos traded at 5 to 6 basis points, and one-month, three-month, six-month and one-year London interbank offered rates ended the week at 0.17%, 0.24%, 0.35% and 0.59%, respectively. As for tapering, with another set of budget negotiations and debt-ceiling extension talks slated to get underway in December and run into the first two months of 2014, it's unlikely the Fed will make any moves to pull back until this overhang gets cleared up.

In other rate-related news, the Fed this week is set to move the rate up another notch to 4 basis points on the overnight reverse repos it is making available as a test of its plan to manage the central bank's eventual exit from extraordinary monetary accommodation. By setting a floor, the test is helping nudge up bank overnight rates. On the flip side, the EU last week cut its overnight lending rate in half to 25 basis points, putting a little downward pressure on short rates in the European markets.

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