FLORIDA PRIME

Weekly Commentary

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Despite a rash of data indicative of a strengthening economy, Treasury bill yields slipped last week while London interbank offered rates (Libor) held steady at low levels. Yields on four-week T bills fell 3 ½ basis points to 0.03%, while 13-week and 26-week bills each slipped a half basis point to 0.075% and 0.10%, respectively. Overnight repo rates also declined slightly.

Rates remained low even though reports on November job growth, auto sales, new home sales, manufacturing and third-quarter GDP pointed to accelerating economic activity. Nonfarm payrolls rose a better-than-expected 203,000 on broad-based gains including manufacturing and construction; the average workweek and worker earnings also rose, while the jobless rate dropped to a much lower-than-expected five-year low of 7%. Auto and new-home sales also were much stronger than expected, with the former reaching pre-recession levels and the latter rising the most in 33 ½ years. Revisions also put growth in third-quarter GDP at an upwardly revised 3.6%, though there was some concern a strong inventory build that contributed to the growth could see some pullback in the fourth quarter.

Taken together, the week's data led to speculation that Fed policymakers could introduce taper as early as this month's meeting, which will be held next Tuesday and Wednesday. However, the Fed has taken pains to divorce any tapering from any signs of tightening, i.e., actual increases in the benchmark funds rate. Moreover, inflation data continues to be very benign, with the Fed's preferred core PCE index slipping in October to near the bottom of its 1% to 2% target range. This adds further to the notion that even if tapering and growth puts some upward pressure on long rates, short rates are unlikely to move in tandem.

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Views are as of December 9, 2013, and are subject to change based on market conditions and other factors.