FLORIDA PRIME

Weekly Commentary

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Concerns over foreign currency in emerging markets and looming domestic policy dominated last-week's news, although short rates did not react. Overnight Treasury and mortgage-backed repo rates held steady at 2 and 3 basis points, respectively. The London Interbank Offered Rates remained at low levels, with the 3-month Libor unchanged at 0.24%.

With the U.S. economy showing further signs of health and with some global unrest, including China's manufacturing slowdown, Argentina's devaluation of the peso and Ukraine's political strife, the dollar strengthened, causing the currencies of emerging markets to drop last week. The global uncertainty led to a modest flight to quality that pushed the yield on the 10-year Treasury to its lowest level in nearly two months.

But worry about the possibility of yet another U.S. debt-ceiling crisis and its worse-case scenario of a government shutdown, led to some fretting among investors, resulting in higher outflows of short-term Treasuries, especially those coming due in March, when the Treasury says it could exhaust its reserves to pay off debt. The Federal Reserve's likely decision to continue tapering its buying of Treasury bills added to a modest sell-off Friday.