FLORIDA PRIME

Weekly Commentary

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Overnight rates continued to be in the basement, but at least they had a solid floor with the 3 basis points provided by the Federal Reserve's overnight fixed-rate reverse-repurchase program. That level will continue as the Fed announced at its Federal Open Market Committee meeting last week that it had extended the facility into 2015. The terms did not change, but the allowance per counterparty was raised to $5 billion, from $3 billion, per day. The overnight Treasury and mortgage-backed repo rates remained at 2 and 3 basis points, respectively.

The London interbank offered rates (Libor) did not budge from low levels, with the 3-month Libor remaining at 0.24%. Demand continued to outpace supply, though the Fed continued tapering its purchasing of Treasuries and agency-mortgage-backed assets to $65 billion, from $75 billion, per month. The move may have exacerbated distress in emerging markets and currency issues in countries such as Turkey.

While monetary policy dominated the news, reports on the U.S. economy were not far behind as it grew at a 3.2% seasonally adjusted annual rate in the final quarter of 2013. Despite the poor weather, this rise in gross domestic product continued optimism that recovery is gaining traction. Net income was flat, but personal spending rose 0.4%, the Conference Board's consumer confidence index increased and the housing market was marginally healthier. Concerning the latter, November home prices were 13.7% higher than a year earlier in 20 large markets, according to the S&P/Case-Shiller index. However, new home sales ended the quarter lower, partly chilled by the unusually harsh cold spell. But, in all, the week showed that the U.S. economy could be thawing.

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