Weekly Commentary

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Economic reports affirmed each other last week in contrast to being mixed most of the year so far, and the good news is that the news was good.

New jobless claims fell, manufacturing and economic activity increased across the northeast and leading indicators were positive. Inflation also perked up last week as measured by the Consumer Price Index. But the Federal Reserve traditionally has preferred to pay greater attention to the Personal Consumption Expenditures Index, which remained under the Fed's 2% threshold. That is in large part why the decision last week by the policymaking arm of the Fed—the Federal Open Market Committee—was moderate. On the one hand, it showed confidence in the economy by continuing to taper its asset-buying campaign at a pace of $10 billion, bringing the monthly amount to $35 billion in purchases. But on the other hand, Chair Janet Yellen signaled caution about the pace of the economic recovery when she reiterated a desire to keep interest rates at historic lows at least until 2015.

The short-term rates market responded with moderation of its own, perhaps also affected by the growing violence in Iraq. The 1- and 3-month Treasuries stayed steadfast at 0.030% and 0.035%, respectively. The 1- and 3-month London interbank offered rate (Libor) also did not move from 15 basis and 23 basis points, respectively.

The Fed's overnight fixed-rate reverse-repo facility remained at last week's rate of 0.05% but the overnight Treasury and mortgage-backed repo rates both declined, to 0.05% and 0.07% respectively.