Weekly Commentary

JANUARY 6, 2014

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Short credit and government interest rates were little changed last week as the market began to focus on the economic outlook for the New Year and the potential for an upward bias in money rates over the course of 2014.

One big plus for rates moving into 2014 was the Fed's late-year decision to extend and expand the overnight reverse repo facility it has been testing to manage its exit from all the extraordinary monetary accommodation of the past five years. While the reverse repo rate was dropped to 3 basis points—most likely to appease dealers concerned the previous 5 basis points was too high amid all the year-end window-dressing that typically causes supply to dwindle—we would expect the rate will move back to 5 basis points as supply re-enters the market with the New Year. Particularly encouraging was the increase from $1 billion to $3 billion in the amount participants can purchase from the Fed.

On the economic front, much of the news of the week reinforced the notion that the economy was strengthening toward year-end, with bigger-than-expected increases in Case-Shiller's home price index and the Conference Board's consumer confidence gauge. The ISM report on manufacturing also reflected strength, though this morning's companion ISM report on services was a bit disappointing, with the first contraction in the new orders component since July 2009 overshadowing an overall rise in the monthly gauge. December auto sales also disappointed, though dealers blamed weather and a late Thanksgiving that pulled some sales into November, which was the strongest month in nearly seven years.

G40461-19 (1/14)