FLORIDA PRIME

Weekly Commentary

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Citing a largely improving U.S. economy and viewing its negatives as transitory, the Federal Reserve voted to raise interest rates last week. The policymakers just moved the target range upward from 0.00-0.25% to 0.25-0.50%, but that is a tremendous shift for a rate that has been nearly zero for seven years.

The Fed pointed to health in the labor and housing markets (reinforced by strong numbers last week) and stated that downsides, such as poor manufacturing (also reinforced last week with poor numbers in several surveys), are due to the temporary issues of low energy prices and the strong dollar. It expects inflation to stir to normal levels in due time. Chair Janet Yellen's press conference emphasized that any further hikes will be gradual and data dependent. The Fed's economic projections implied a 0.25% increase at every other meeting, leading to a 2.375% rate at the end of 2017.

The short end of the London interbank offered rate (Libor) continued to shoot upward. Compared with week-ago figures, 1-month Libor leapt from 33 basis points to 41 and 3-month jumped from 51 basis points to 59.