Weekly Commentary

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A wild week for equity and bond markets that saw enormous drops and jumps in prices stole the headlines from what was a slew of positive U.S. economic data. First and foremost, the Bureau of Economic Analysis announced a revision of its calculation of the country's gross domestic product (GDP) from an initial reading of a solid 2.3% to a robust 3.7%. This confirms many experts' beliefs that the poor weather battered first quarter had created pent-up demand, confidence and growth that would emerge in the spring. Other positive news included weekly jobless claims coming in again less than 300,000 and a housing market that continues to sizzle, with units sold and pending home sales both increasing. Orders of core durables in July also increased, although surveys of consumer confidence were mixed. The main negative was the report about inflation for July that showed continued sluggishness.

Cash rates returned to levels more typical of recent weeks. The yield on the 1-month Treasury increased from 4 basis points to 5 and the 3-month fell from 11 basis points to five. The short-end of the London interbank offered rate (Libor) curve hardly moved. The 1-month remained at 20 basis points, and the 3-month dropped slightly to 32 basis points from 33. The rate for the Fed's overnight reverse-repo facility remained at 0.05%, but the overnight Treasury and mortgage-backed repo rates remained elevated at 0.08% and 0.10%, respectively.