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Weekly Commentary

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Stability amid uncertainty

Is the Fed finished? Sometimes it's best to skip the soundbite and get the word straight from the source. Thursday, Fed Chair Jerome Powell said, "We are deploying these lending powers to an unprecedented extent, enabled in large part by the financial backing from Congress and the Treasury. We will continue to use these powers forcefully, proactively and aggressively until we are confident that we are solidly on the road to recovery."

Apparently, not. But the Fed has already done so much for the liquidity markets. Much of its now $6.1 trillion balance sheet has gone to the short end and many new facilities have helped significantly. The open programs targeting the cash portfolio include the Money Market Mutual Fund Liquidity Facility (MMLF) and the Primary Dealer Credit Facility, and they both continue to be a positive. The Fed's Commercial Paper Funding Facility (CPFF) is scheduled to start next week. Treasury bill yields are firmly positive now, with an upward sloping curve mainly due to huge issuance of regular, as well as cash-management bills. So many uncertainties that still surround us as a society, but it is nice to know that the Fed moves have given stability to the crucial section of the financial system.

The London interbank offered rate (LIBOR) drifted a little lower this week from short-end to around six months, ending Friday with 1-month at 0.81%, 3-month at 1.22% and 6-month at 1.23%.

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