FLORIDA PRIME™

Weekly Commentary

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Fed programs making a difference

In times of turmoil, not being in the limelight can bode well for financial elements. This has been the case for the Federal Reserve's Commercial Paper Funding Facility (CPFF). While Chair Jerome Powell announced it several weeks ago, it only went into operation this week. Like the Fed's Money Market Mutual Fund Liquidity Facility (MMLF), the CPFF is not a guarantor for money funds and pools. It was created "to provide a liquidity backstop to U.S. issuers of commercial paper," in the words of the Fed itself. It is early days, but so far it has flown under the radar of the financial media, and that's a good sign. This is largely because the CPFF has not seen as much use as might have been expected. The less that participants need it, the healthier the liquidity markets are.

Also good news is that the Treasury yield curve has returned to an upward slope. We have seen what we anticipated: that Congress' $2 trillion fiscal stimulus package increased supply of Treasury bills. We expect further reduction of downward pressure on yields when the Fed reduces its overnight and term purchases in early May.

The London interbank offered rate (LIBOR) drifted lower this week from the short-end to around six months, ending Friday with 1-month at 0.67%, 3-month at 1.11% and 6-month at 1.10%.

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Views are as of April 17, 2020, and are subject to change based on market conditions and other factors.