FLORIDA PRIME™

Weekly Commentary

MAY 29, 2020

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

March seems years ago

The next Federal Open Market Committee meeting is nearly two weeks away, but the Fed seems to be quietly formulating a withdrawal strategy as the market dislocations of March have become a distant memory. Policymakers have reduced daily and weekly purchases of Treasuries and know that some of the new facilities. That is especially the case with the Commercial Paper Funding Facility (CPFF), as bid/ask spreads have normalized. We also think they continue to consider raising the floor on overnight reverse repo rates to five basis points.

But the Fed has not been quiet about their dislike of negative rates. In May, policymakers repeated many times they are satisfied that their present tools are effective and that pushing rates below zero is not on the table. Unlike the novel nature of many of its new facilities, there is plenty of evidence of the ineffectiveness of negative rates from the European Central Bank and the Bank of Japan. Fed officials know the score. But many in the marketplace simply aren't listening as seen in the recent trading of the fed funds futures contracts in negative territory for early 2021.

Spreads between prime and government securities tightened in May as London interbank offered rates (LIBOR) continued to fall. While 1-month LIBOR rose a basis point to 0.18%, 3-month slipped to 0.34% and 6-month fell to 0.51%.

G40461-19 (6/20)