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Weekly Commentary

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What can you trust?

While so many economic indicators have improved lately, there just are too many unknowns to feel good about it. Payrolls soared by 4.8 million in June—with May's shocking number revised up—and the unemployment rate decreased by 2.2 percentage points to 11.1%. But the survey did not cover much of the recent surge in Covid-19. The ISM manufacturing gauge indicates the sector stopped contracting in June, and pending home sales spiked from April to May. But who feels confident about these figures with states now either postponing openings or imposing mask requirements again?

The Federal Reserve tweaked its overnight and term repo rates by five basis points in mid June, and after a few weeks of trading, the result has been that rates have risen. The Fed again showed ingenuity by also shifting the timing of its repo transactions from the morning to the afternoon. While it is offering a more attractive rate than before, dealers don't want to wait until 2 p.m. to be funded, so they are offering higher rates in the morning themselves. That's exactly what policymakers wanted to see.

This week saw 1- and 3-month part London interbank offered rates (LIBOR) slip to 0.16% and 0.28%, respectively, but the 6-month rate rose to 0.37.

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