FLORIDA PRIME™

Weekly Commentary

SEPTEMBER 23, 2019

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Repo market takes the spotlight

Spiking repo rates stole the show from the Federal Reserve's policy-setting meeting last week. The volatility did not result from credit events but from a confluence of technical factors: corporate quarterly tax payments, a large settlement of net new Treasury supply and declines in reserve balances at the Fed. These combined to push rates on repo transactions substantially higher and led policymakers to tweak the rate it pays on excess reserves and the reverse repo facility, and also to inject reserves into the system. On Friday, the Fed announced its intention to engage in temporary overnight and term repo transactions for the next few weeks. We expect these steps to corral repo rates within the Fed's new 1.75-2% fed funds target range it announced on Wednesday and reduce the volatility.

On the economic front, the housing market perked up in September, manufacturing improved and the labor market remained strong.

The London interbank offered rate was essentially unchanged last week from the previous week. One-month Libor ended at 2.04%, 3-month at 2.14% and 6-month at 2.07%.

G40461-19 (9/19)

Views are as of September 23, 2019, and are subject to change based on market conditions and other factors.