Economic News

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UNITED STATES

Some U.S. money market rates are increasing

The vote in favour of Brexit and new monetary easing by several overseas central banks heightened downside pressure on bond yields in recent months. In this context, it is surprising to note the recent increase in several interest rates on the U.S. money market. Of particular note is the increase in Libor rates, which are the rates at which banks make unsecured short-term loans to one another. The 3-month Libor went from around 0.65% in mid-July to a little over 0.80% recently.

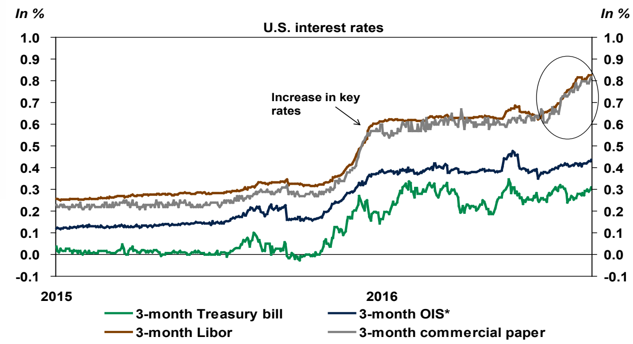
This increase does not stem from rising expectations on U.S. key rates, as 3-month U.S. Treasury bill yields are not posting a clear trend. The 3-month Overnight Indexed Swap (OIS), which reflects the anticipated overnight rate over three months, has also remained stable since mid-July.

Analysts have been closely monitoring the gap between Libor and OIS since the 2008 financial crisis, as a widening in this gap usually reflects financial sector difficulties. But today's situation is different, as stock exchanges are doing quite well and several other indicators signal a near absence of financial tension.

The recent rise in Libor rates instead stems from imminent changes to monetary market fund regulation in the U.S. that reduces the attractiveness of certain securities issued by private companies, including banks. These regulatory changes will come into effect in mid-October and could continue to trigger volatility in the money market over the coming months.

Implications: The recent rise in U.S. Libor rates does not signal an increase in financial tensions. It does, however, lead to a slight tightening of monetary conditions, as many variable-rate loans are directly tied to Libor rates. While not a determining factor, the recent rise in Libor and uncertainty on its short-term movement could help convince Fed leaders to opt for the status quo in September.

The recent increase in money market rates does not reflect a rise in key rates



* Overnight Indexed Swap
Sources: Bloomberg and Desjardins, Economic Studies

An increase in the Libor premium usually reflects a spike in financial tensions

* Overnight Indexed Swap
Sources: Bloomberg and Desjardins, Economic Studies

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