

DAILY GLOBAL
COMMENTARY

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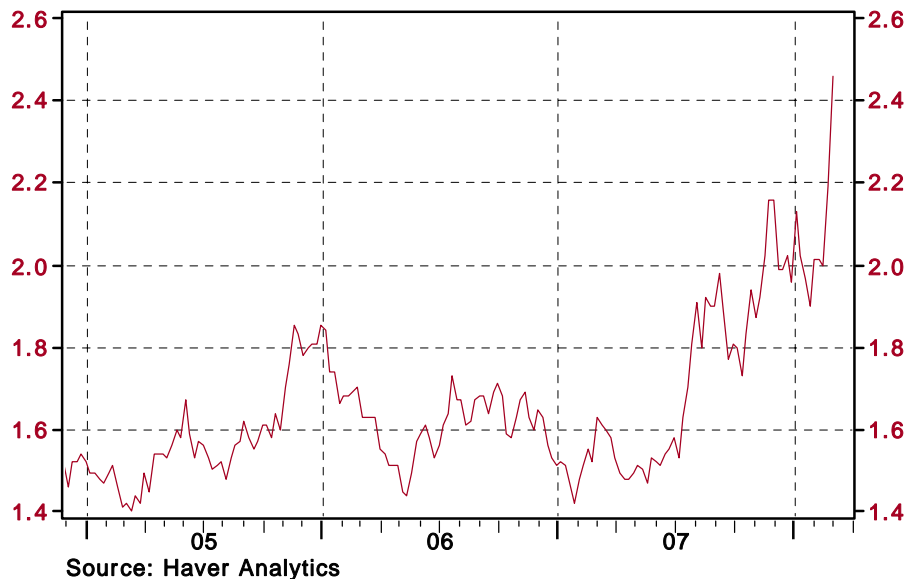
Duration and Reach of Financial Market Stress Challenging Fed

March 10, 2008

The current financial market stress, which began in August 2007, continues to challenge the Fed. The Fed has lowered the nominal federal funds rate to 3.00% from 5.25% in a very short period (September 18, 2007 – January 30, 2008). The 10-year U.S. Treasury note yield is down around 100 basis points from early-August 2007. The 30-year fixed rate mortgage has declined but noticeably less than the 10-year Treasury note yield, which has resulted in a significantly largely spread (see chart 1) between the two compared with the period prior to the onset of the current turmoil (around 240 basis points now vs. around 160 bps prior to August).

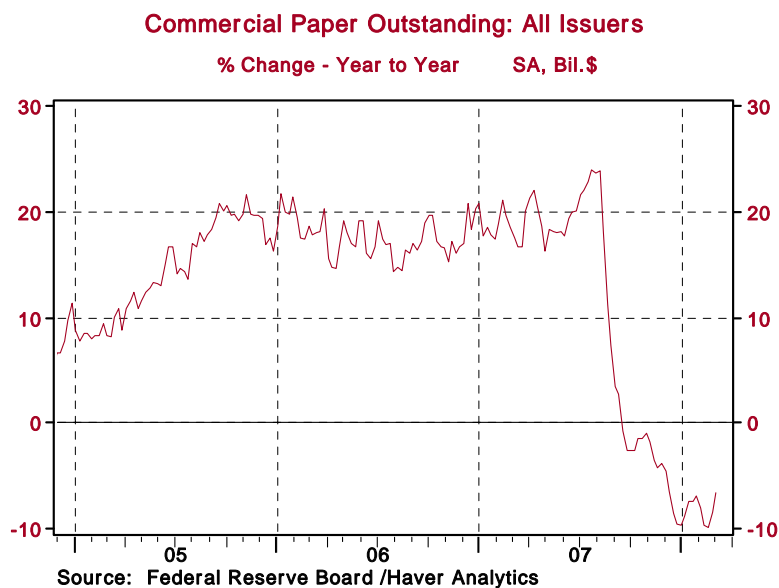
Chart 1

30-year Fixed Rate Mortgage less 10-year U.S. Treasury Note yield percent



The commercial paper market continues to present a problem (See chart 2); this market has stopped functioning as a conduit for credit.

Chart 2




At the risky-end of the credit market, yields are advancing to highs seen close to the last recession (see Chart 3)

Chart 3



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To date, the Fed has eased monetary policy, Congress has passed a stimulus package, the Fed has taken initiatives to provide liquidity, and target support for housing has been set up. The multi-pronged approach to address financial market stress has not succeeded adequately because financial market stress and volatility remain visible. The Fed is working to mitigate the impact on the broader economy and prevent a severe economic downturn. However, with the probability of recession being quite significant, policy makers should be focused on minimizing the adverse effects.

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