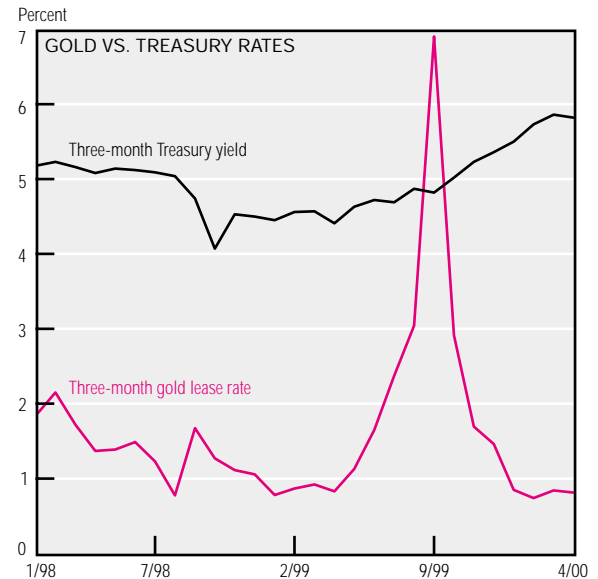
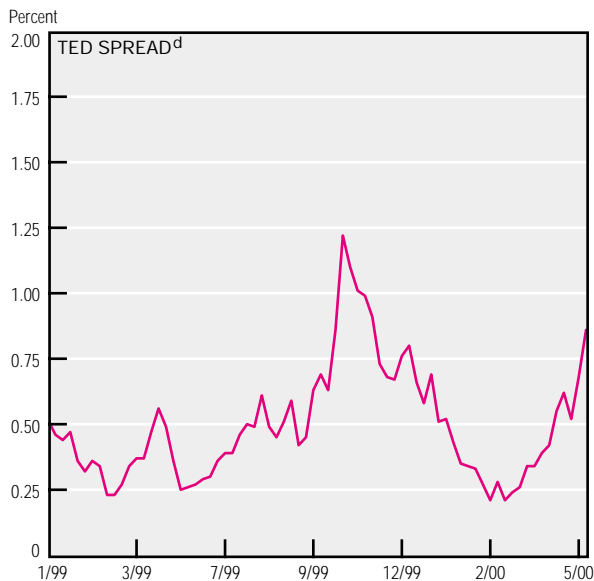
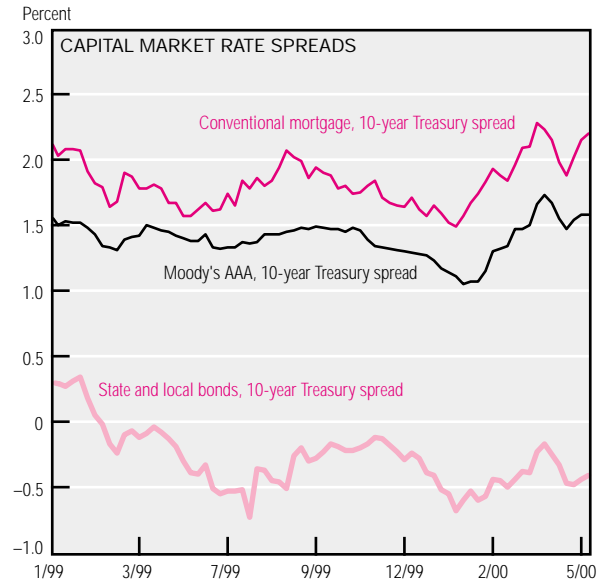
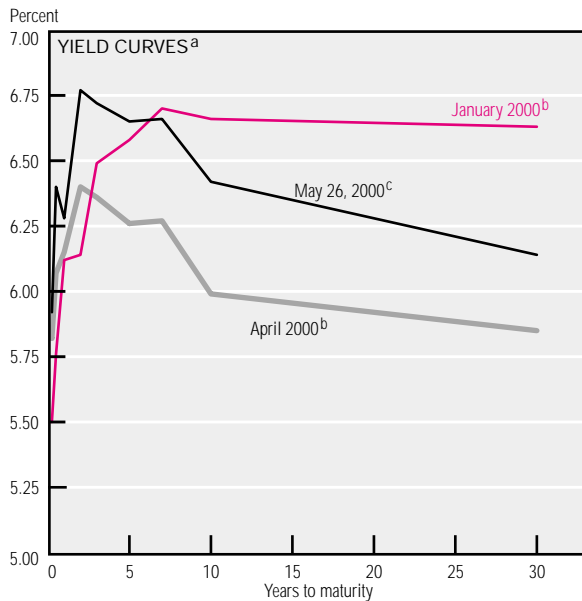


Interest Rates



a. All yields are from constant-maturity series.

b. Monthly averages.

c. Averages for the week of May 26, 2000.

d. The spread between the three-month eurodollar deposit rate and the three-month Treasury-bill rate.

SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15; and Bloomberg Financial Information Services.

Over the past month, the yield curve shifted higher while retaining its humped shape, with short and long rates lower than medium-term rates. Since the beginning of the year, short rates have moved up as long rates moved down. While the Federal Open Market Committee's recent increase of 50 basis points (bp) in the target federal funds rate was reflected in a 10 bp increase in the three-month rate, it is harder to explain the 43 bp increase in the 10-year rate. Perhaps concern about inflation has also risen despite the FOMC's action.

The yield curve looks at bonds that differ by maturity, but much of the information in the fixed-income market comes from bonds that differ by other characteristics. Among long-term bonds, spreads over Treasuries have generally increased, most likely because greater economic uncertainty has made them riskier, raising the premium demanded by investors for bearing risk. This is perhaps most apparent in the Treasury-to-eurodollar (TED) spread, which, because it compares dollar assets of similar maturities, is almost purely a risk spread.

Interest is not invariably paid in money. In the gold market, lending 100 ounces for a year means you will receive 102 ounces back, if the gold lease rate is 2%. Central banks around the world are big gold lenders, and their actions strongly influence the lease rate. The turnaround in September 1999 followed from the Washington Agreement, in which 15 nations' central banks resolved uncertainty about their practices, agreeing not to expand leasing and to avoid future gold sales other than those already announced.