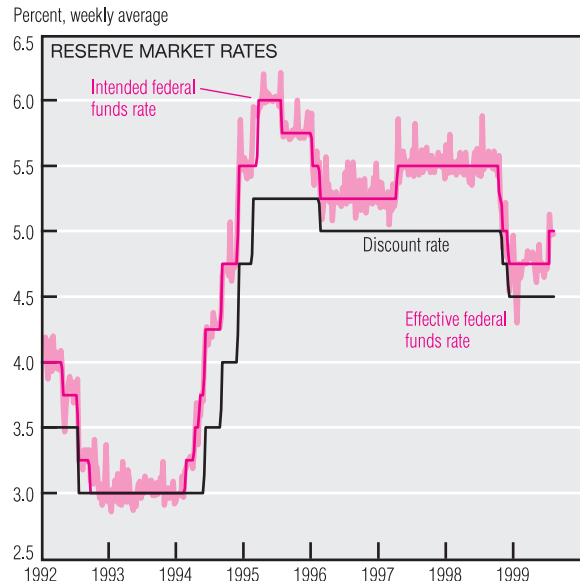
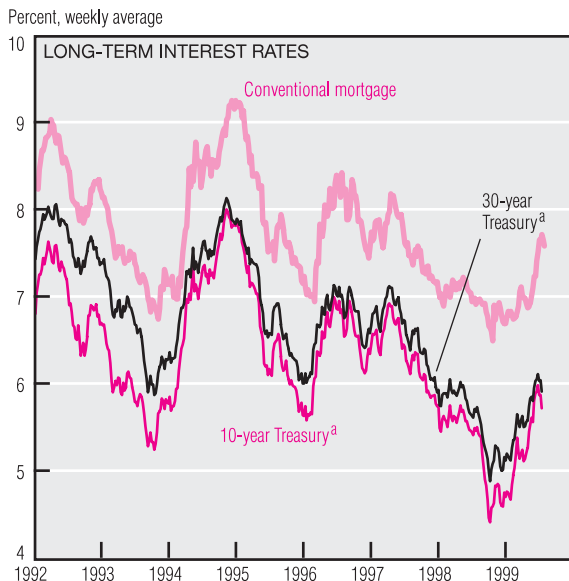
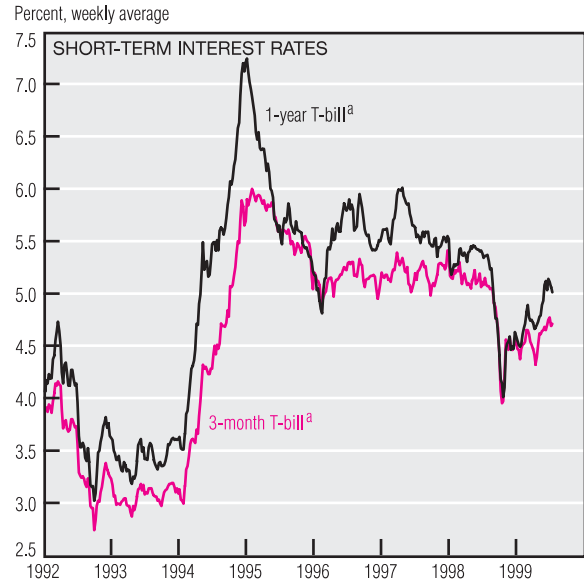
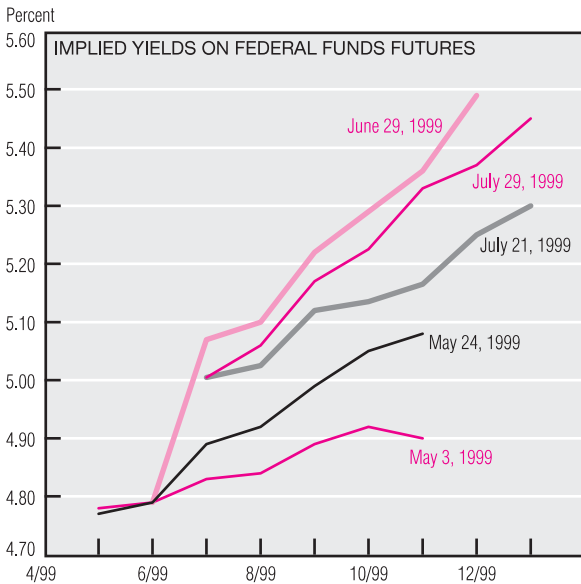


Monetary Policy



a. Constant maturity.

SOURCES: Board of Governors of the Federal Reserve System; and Chicago Board of Trade.

Implied yields on federal funds futures provide market participants' best estimate of future monetary policy. Current yields reveal that market participants continue to anticipate at least one more rate increase before the end of the year. After an upward adjustment in the weeks just prior to the Federal Open Market Committee's (FOMC) decision to raise the federal funds rate on June 29, expectations of further increases began to wane. As of July 21, the December contract

traded at 5.25%, which, although 25 basis points above the current target of 5.0%, was down from 5.5% one month earlier.

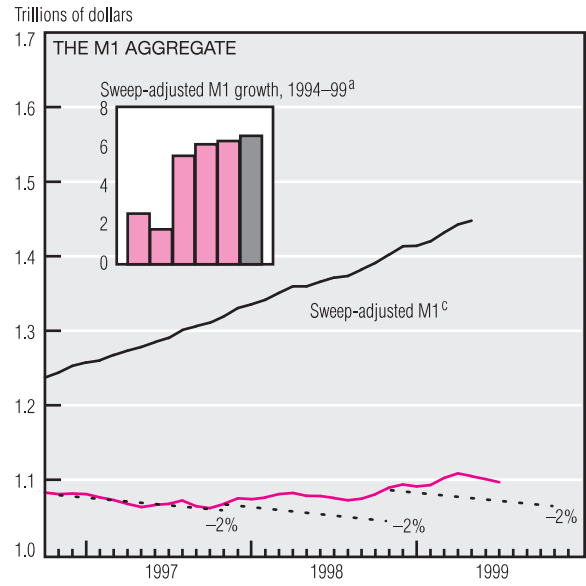
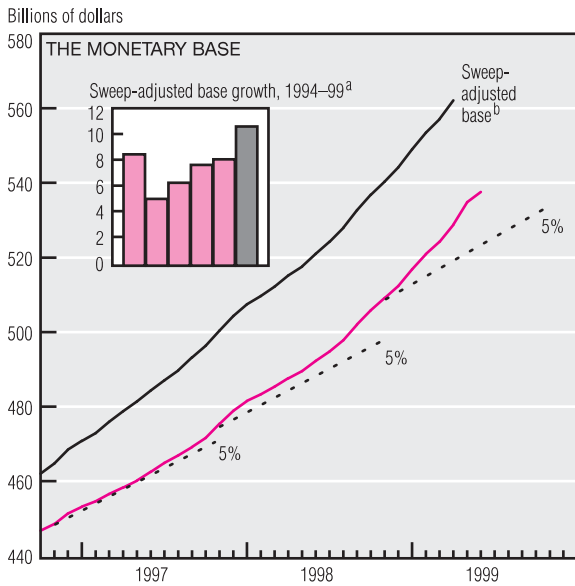
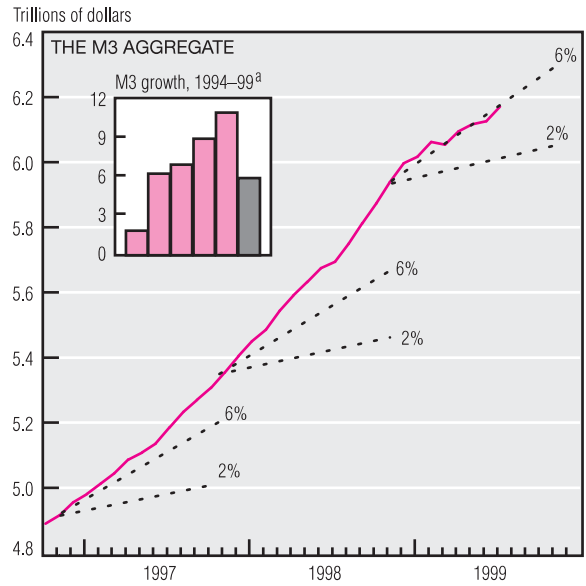
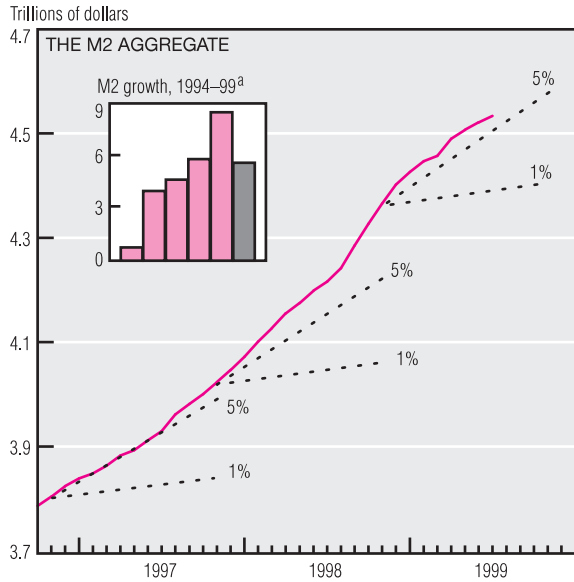
Expectations rallied once again to 5.45% following Chairman Alan Greenspan's biannual Congressional testimony on July 22. He explained that, although increases in productivity mitigated the need to raise rates above 5.0% at the time of the June meeting, continued improvement in the world economy and the tightness of the domestic labor market "suggest that the Federal Reserve

will need to be especially alert to inflation risks."

Short- and long-term interest rates, which had been rising steadily over the last six months, showed little change in July. As of July 23, yields on the 3-month and 1-year Treasury bills averaged 4.68% and 5.02%, respectively. Both instruments are down slightly from 4.71% and 5.1% during June. The 10-year Treasury bond also declined 13 basis points to average 5.77% over

(continued on next page)

Monetary Policy (cont.)



a. Growth rates are percentage rates calculated on a fourth-quarter over fourth-quarter basis. The 1999 growth rate for adjusted M1 and the adjusted base are calculated on a May over 1998:IVQ basis. The 1999 growth rates for M2 and M3 are calculated on an estimated July over 1998:IVQ basis.
 b. The sweep-adjusted base includes an estimate of required reserves saved when balances are temporarily shifted from reservable to nonreservable accounts.
 c. Sweep-adjusted M1 includes an estimate of balances temporarily shifted from M1 to non-M1 accounts.
 NOTE: Data are seasonally adjusted. Last plots for M1, M2, and M3 are estimated for July 1999. Dotted lines for M2 and M3 are FOMC-determined provisional ranges. All other dotted lines represent growth in levels and are for reference only.
 SOURCE: Board of Governors of the Federal Reserve System.

the same period. Although the 30-year Treasury bond and the 30-year conventional mortgage rate posted modest gains of eight and seven basis points over the previous month, there was a noticeable deceleration from the 15- and 40-basis-point gains that occurred from May to June.

At its June meeting, the FOMC reaffirmed the established growth rate ranges for M2 and M3 at 1% to 5% and 2% to 6%, respectively. In addition, the Committee adopted the

same growth rate ranges for 2000 on a provisional basis. Growth rates in the broader money aggregates have been consistently at or above the upper bound of the established ranges over the past three years; however, growth rates have been moderating recently.

The FOMC lowered the target for the federal funds rate by a total of 75 basis points between August and December in response to financial market concerns. As opportunity costs fell, money demand

accelerated. The situation was exacerbated by the subsequent flight to quality that occurred when foreign and domestic investors, concerned about instability in developing markets, reallocated funds to U.S. Treasuries and money market funds. The well-documented recovery of many developing economies, as well as anticipated increases in the federal funds rate, have combined to reverse the rapid money growth which ensued.