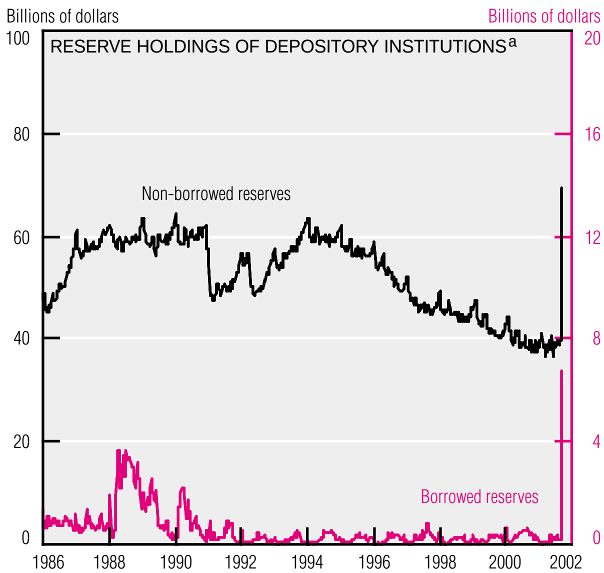
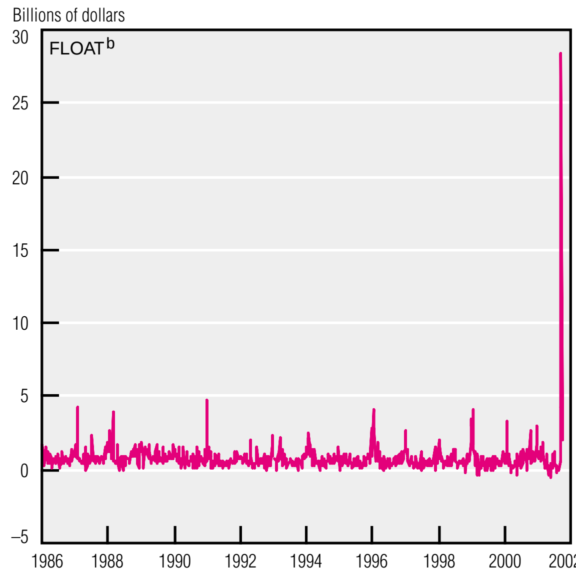
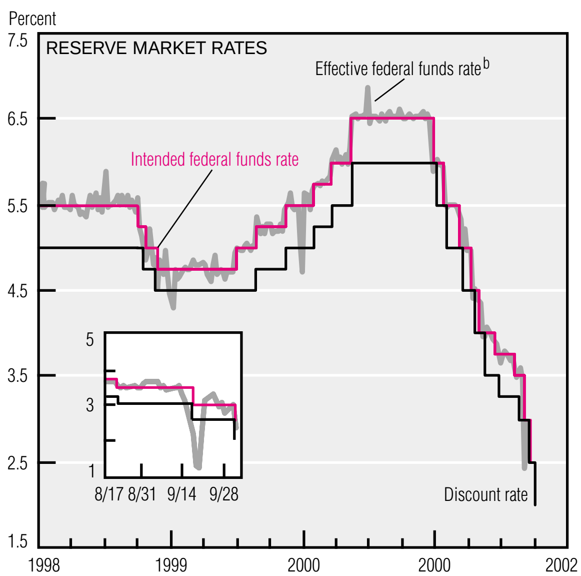
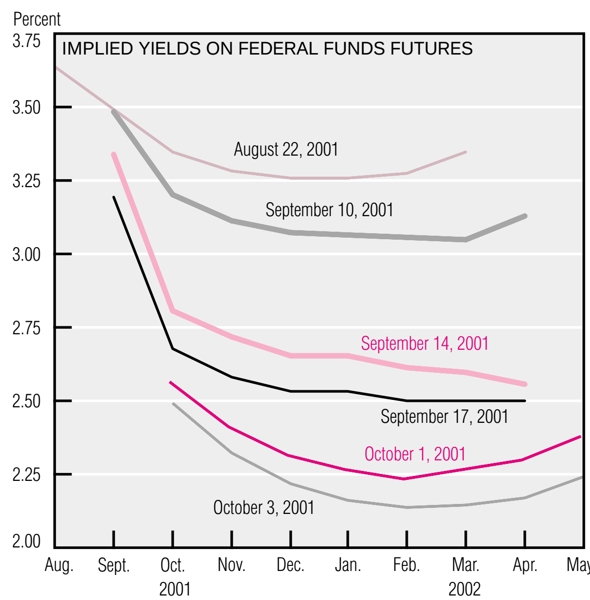
Monetary Policy









a. Not seasonally adjusted. Not adjusted for changes in reserve requirements. Biweekly average of daily figures.

b. Weekly average of daily figures.

SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Releases*, “Selected Interest Rates,” H.15, “Aggregate Reserves of Depository Institutions and the Monetary Base,” H.3, and “Factors Affecting Reserve Balances,” H.4.1; Chicago Board of Trade; and Bloomberg Financial information Services.

The events of September 11 raised the possibility of disruptions in the payments system and the federal funds market. Soon after the attacks, the Federal Reserve announced that the discount window was “available to meet liquidity needs.” Discount window borrowing rose dramatically in the ensuing days, and the Trading Desk conducted large volumes of open market purchases to supplement bank reserves. Float levels rose markedly because of transportation disruptions. Late in the week, discount window borrowing and float returned to more normal levels.

In an intermeeting action on September 17, the Federal Open Market Committee (FOMC) lowered the federal funds target rate 50 basis points (bp) to 3%. Its press release reiterated the Fed’s intent to “continue to supply unusually large volumes of liquidity to financial markets” and said that as a result, “the actual federal funds rate may be below its target on occasion.” The effective funds rate was, in fact, below target for six days, reaching a low of 1.19% on September 19. However, since September 21, the effective rate has stayed relatively close to target, with somewhat elevated volatility.

At its regular October 3 meeting, the FOMC cut the federal funds target rate 50 bp more, to 2.5%, stating that “the terrorist attacks have significantly heightened uncertainty in an economy that was already weak.”

Since the beginning of September, the drop in federal funds futures yields has nearly equaled the cumulative decrease in the intended funds rate futures. Market participants anticipate a further 25 bp cut in the funds rate by year’s end.