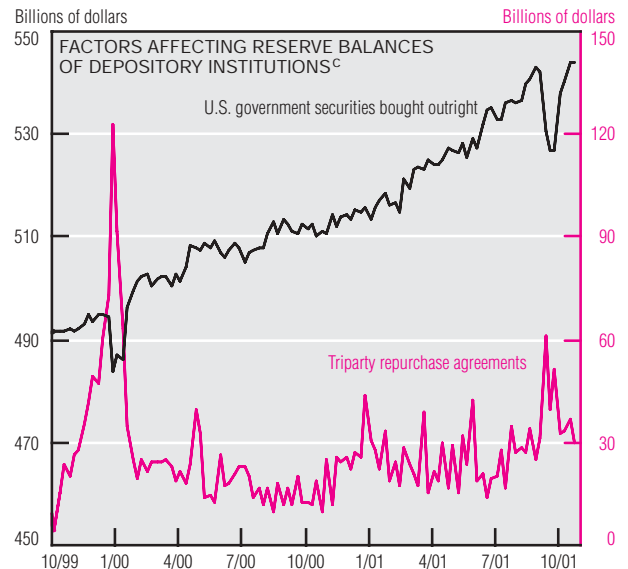
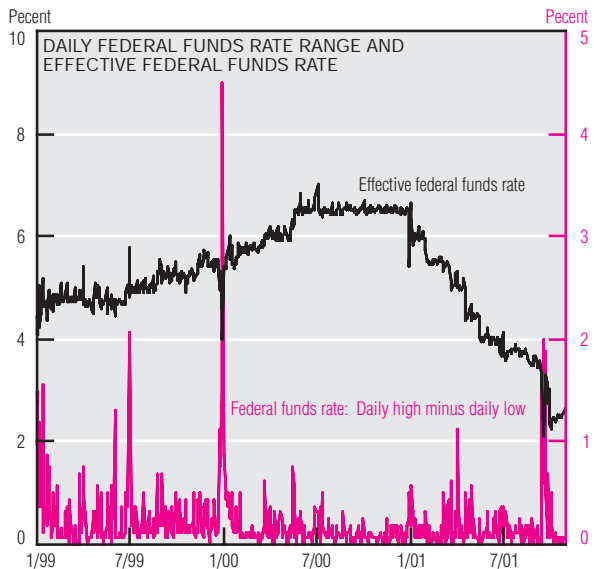
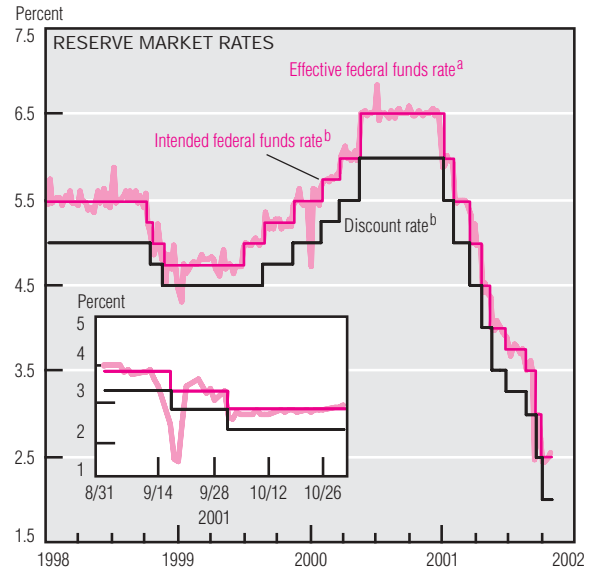
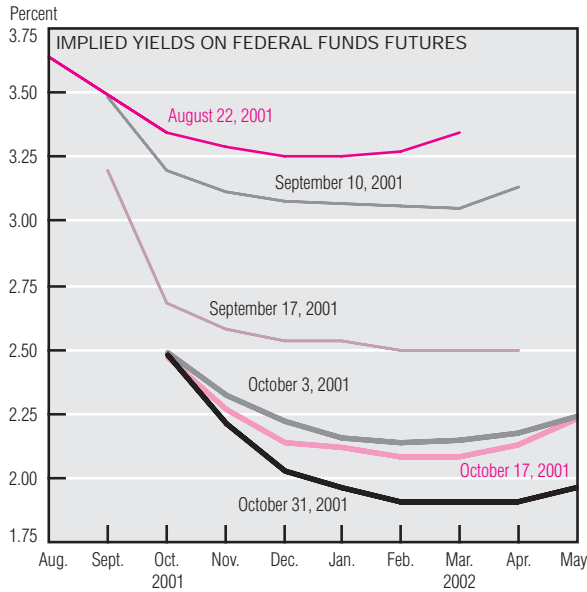


Monetary Policy



a. Weekly average of daily figures.

b. Daily.

c. Weekly, Wednesday, close of business.

SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Releases*, "Selected Interest Rates," H.15, and "Factors Affecting Reserve Balances," H.4.1; Chicago Board of Trade; and Bloomberg Financial Information Services.

Implied yields on federal funds futures often are used to gauge market participants' expectations of the future course of monetary policy. Activity in this market has increased in 2001, with average daily trading volume nearly 200 percent higher than last year. Implied yields had stabilized for much of October, but fell about 25 basis points (bp) across maturities in the latter half of the month. Market participants expect at least a 25 bp rate cut at the November meeting, and most expect the rate to drop 50 bp by year's end.

Although the effective federal funds rate drifted below the intended rate for six days after September 11, it has remained near its intended value for the last several weeks. Since early 1999, the funds rate's average range has been about 20 bp; occasionally, the range widens to 200 bp or more. In recent weeks, the funds rate has tended to open firm, softening near the close.

By conducting open market operations, the Trading Desk at the New York Fed attempts to supply a level of bank reserves that is consistent with keeping the effective federal funds rate near its intended rate. The Desk

purchases government securities outright to accommodate long-run changes in the need for bank reserves, generally following an upward trend. It reduces the portfolio by redeeming a portion of holdings as they mature. Repurchase agreements and matched sale-purchases are used to meet seasonal and daily fluctuations in the factors affecting bank reserves. For several weeks after September 11, the Desk refrained from outright purchases due to market disruptions. It responded to liquidity needs by expanding the level of repurchase agreements vigorously.