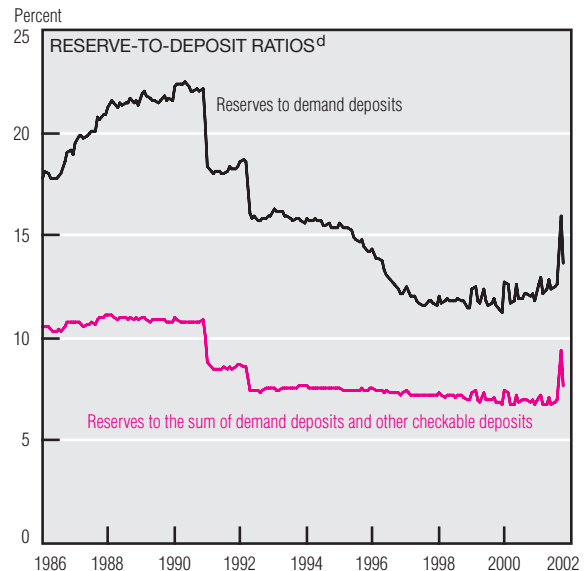
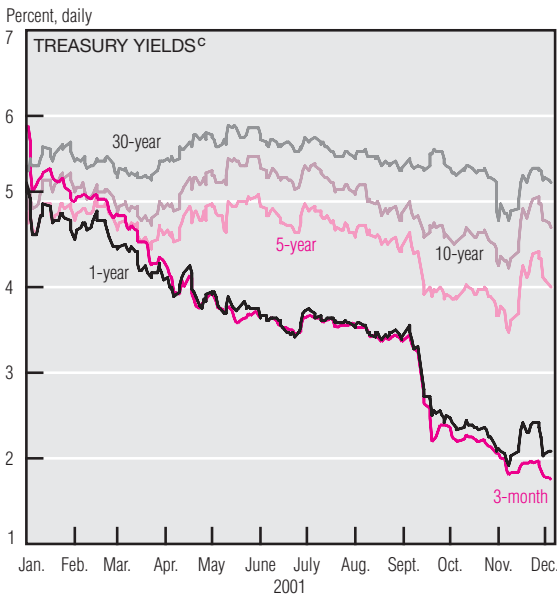
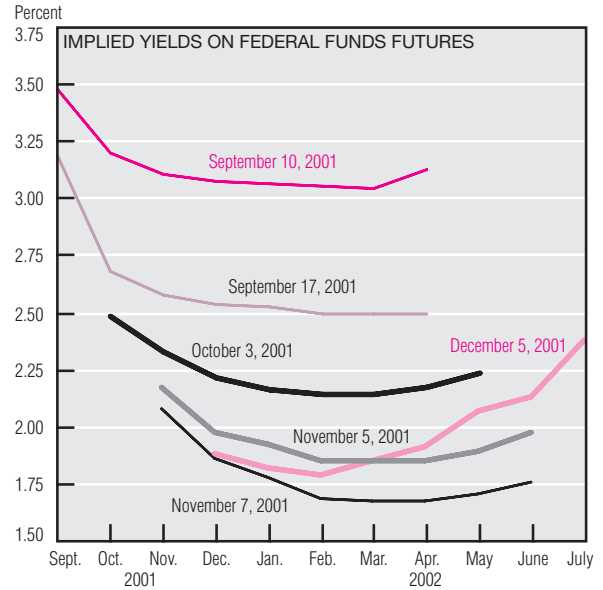
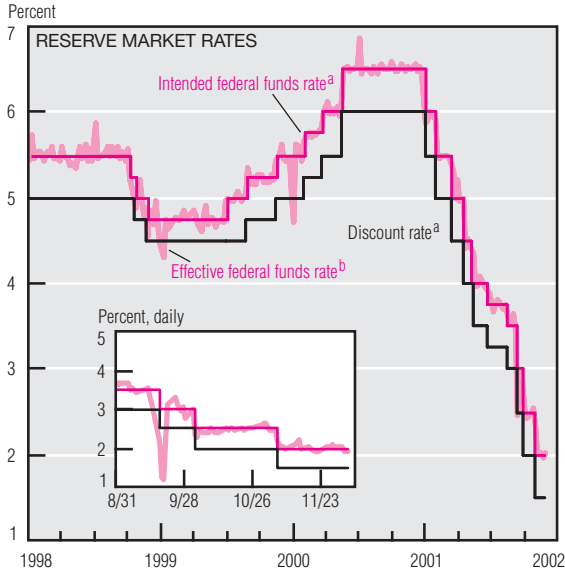


Monetary Policy



- a. Daily.
 b. Weekly average of daily figures.
 c. Constant maturity.
 d. Monthly data, not seasonally adjusted. Total reserves are not adjusted for changes in reserve requirements.

SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Releases*, "Selected Interest Rates," H.15, "Factors Affecting Reserve Balances," H.4.1, and "Money Stock and Debt Measures," H.6; Chicago Board of Trade; and Bloomberg Financial Information Services.

At its November 6 meeting, the Federal Open Market Committee lowered the intended federal funds rate 50 basis points (bp) to 2%. Its press release stated that the "necessary reallocation of resources to enhance security may restrain advances in productivity for a time." Separately, the Board of Governors approved Reserve Bank requests for a 50 bp reduction in the discount rate to 1.5%.

From November 5 to November 7, implied yields on federal funds futures fell between 8 bp and 21 bp across maturities. Market participants now

expect a funds rate cut of no more than 25 bp at the December meeting. Current implied yields suggest that they also expect a round of policy tightening to begin early next year.

On October 31, the U.S. Treasury announced that it would no longer issue 30-year Treasury bonds, setting off a yield drop of more than 40 bp in the days that followed. Treasury yields rebounded in the first part of November, only to decline later in the month.

Depository institutions must hold reserves equal to a specified fraction of certain classes of deposits. From December 1990 to January 1991, the

reserve requirement on nonpersonal time deposits was eliminated. In April 1992, the highest tier of reserve requirements on transaction deposits was reduced from 12% to 10%. Increased volatility in the measured reserve-to-deposit ratio, beginning in 1998, probably results from the shift to a system of lagged reserve accounting, which loosened the link between deposits and the contemporaneous level of reserves. After September 11, the reserve-to-deposit ratio spiked as disruptions caused banks to increase holdings of excess reserves.