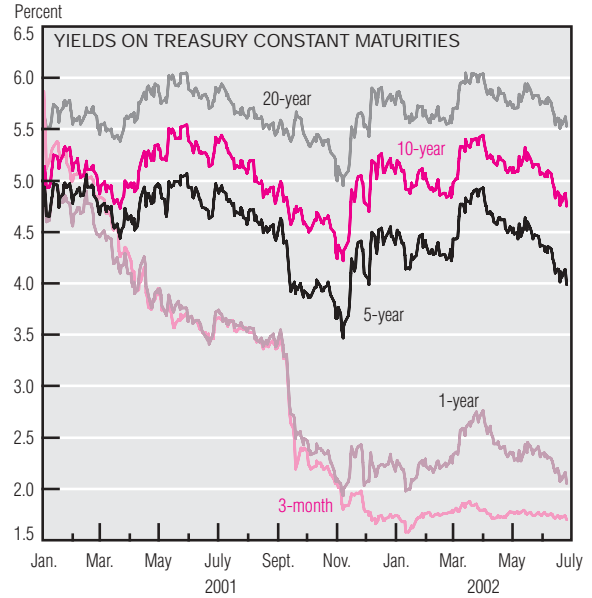
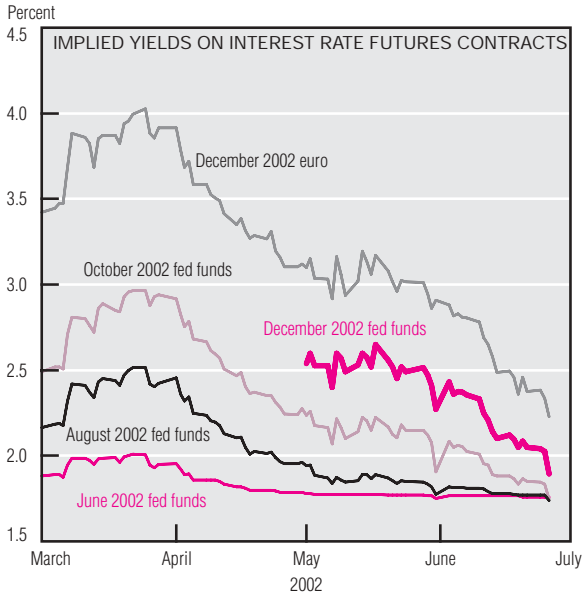
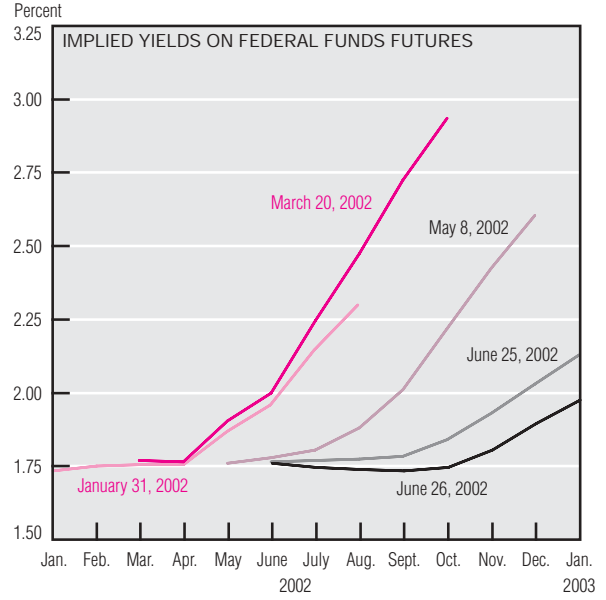
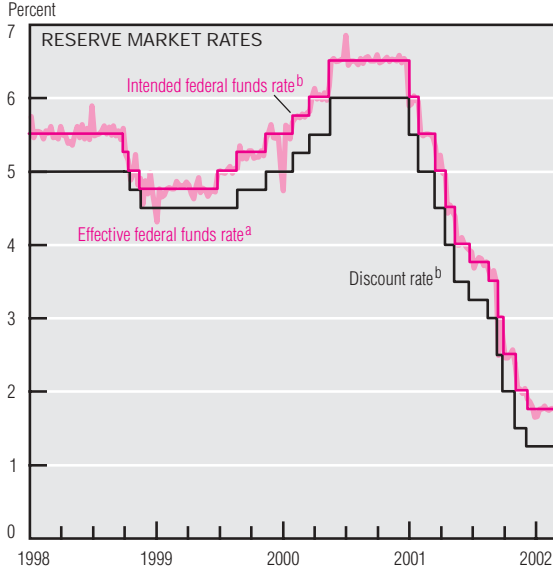


Monetary Policy



a. Weekly average of daily figures.
b. Daily.

SOURCES: Board of Governors of the Federal Reserve System; Chicago Board of Trade; and Bloomberg Financial Information Services.

At its June 25–26 meeting, the Federal Open Market Committee left the intended federal funds rate unchanged at 1.75%. The FOMC indicated in its press release that “economic activity is continuing to increase. However, both the upward impetus from the swing in inventory investment and the growth in final demand appear to have moderated.” The Committee maintained its stance that risks are balanced with respect to price stability and sustainable economic growth.

Implied yields on federal funds futures contracts declined steadily in April, flattened in mid-May, and fell sharply in late May and June, suggesting that market participants do not expect the funds rate to go up until at least November. Eurodollar futures, which are more active at longer maturities, are also used to gauge monetary policy expectations. Implied yields on the December contract have closely followed those on the fed funds futures contract of similar maturity. Although both eurodollar and fed

funds futures have become more accurate in their implied interest rate forecasts in recent years, they are less accurate in forecasting long-term rates. Thus, implied yields as far out as December could change substantially in the coming months.

Treasury yields have continued to decline over the past several months for maturities of one year and longer. Intermediate Treasuries fell the most, partly because issuance of State and Local Government Series securities was suspended beginning May 15.