

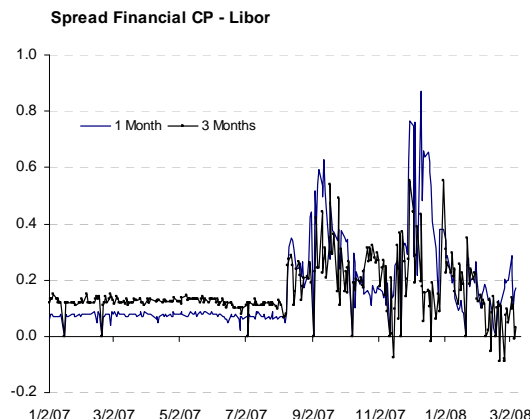


Economic Brief

Fedwatch

March 10, 2008

Bottom Line: Faced with the deterioration of the economic outlook, prompted by financial malaise, the Fed announces targeted injection of liquidity to aid markets in distress. These measures complement recently created channels deemed more effective than broad rate cuts. Market reaction was positive while the implied probability of a 75bp rate cut in the next FOMC declined to 64% from yesterday



Today, the Federal Reserve announced two measures to alleviate liquidity in funding markets.

- **Term Securities Lending Facility (TSLF).** One additional channel to promote liquidity with weekly auctions starting on March 27. The Fed will lend up to 200 billions dollars in Treasuries to primary dealers under better terms: the lending period is increased to 28 days from overnight and the Fed will accept non-agency AAA/Aaa-rated private-label residential MBS as collateral.
- **Currency swap lines with the European Central Bank (ECB) and the Swiss National Bank (SNB).** Fed increased currency agreements for up to \$30 billion and \$6 billion to the ECB and the SNB, respectively. The terms of these swaps were extended trough September 30, 2008. These swap lines were opened last December with an initial provision of up to \$20 billion and \$4 billion to the ECB and the SNB respectively, and were to expire in June

These steps add to those taken on Friday, when the Fed increased the amount outstanding in the Term Auction Facility to \$100 billion in March and assured the continuing operation of this channel as long as it is needed. Fed also initiated a series of term repurchase transactions that are expected to cumulate to \$100 billion. These follow traditional guidelines for collateral purposes.

Fed funds implied probability
for next FOMC meeting (March 18, 2008)

| Fed funds at: | Today | 10-Mar | 4-Mar | 11-Feb |
|---------------|-------|--------|-------|--------|
| 2.00 | 0% | 14% | 0% | 0% |
| 2.25 | 64% | 86% | 78% | 32% |
| 2.50 | 36% | 0% | 22% | 68% |
| 2.75 | 0% | 0% | 0% | 0% |

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