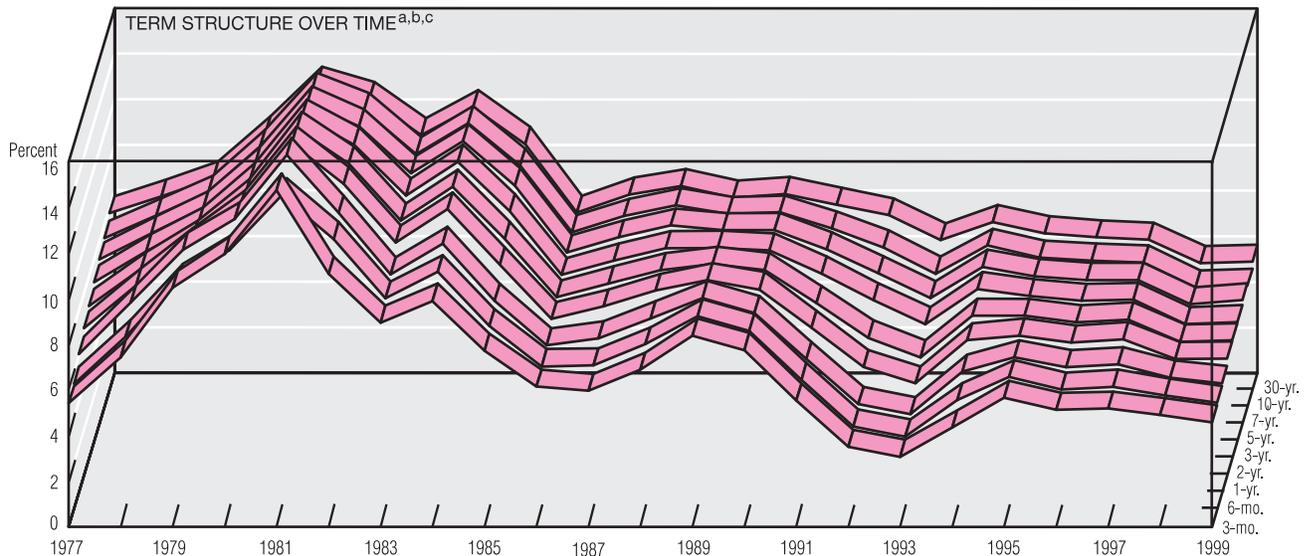
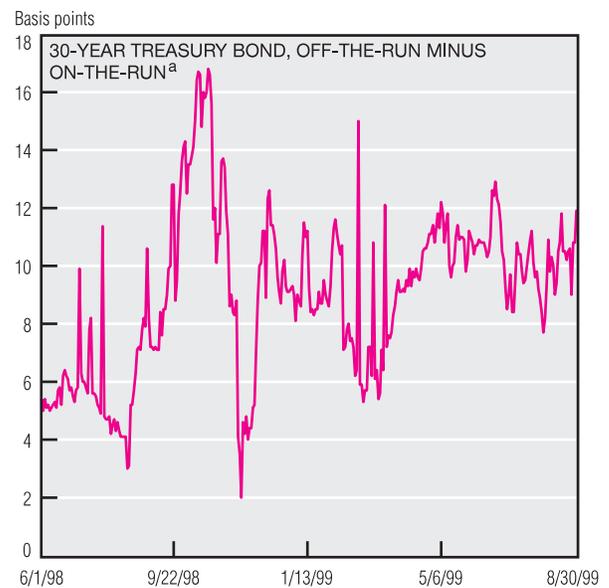
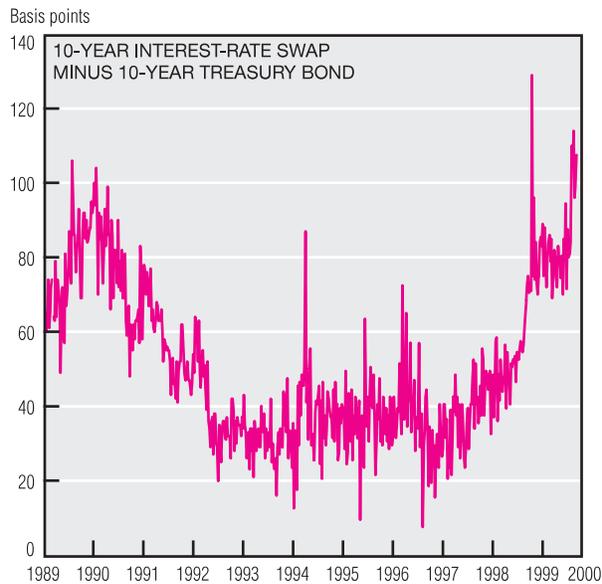


# Interest Rates



a. All yields are from constant-maturity series.

b. 12-month averages except 1999 data, which represent the average of the first seven months.

c. The data for three- and six-month bills before 1982 are 12-month averages of secondary market yields.

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

One closely watched interest-rate spread has been making news lately as it moves to historically high levels. The yield spread between 10-year interest-rate swaps and 10-year Treasury bonds has risen to 108 basis points (bp), a noticeable increase from the range of 75–85 bp seen earlier this year and well above the 20–40 bp rate that prevailed for most of this decade. The widening spread between a risky instrument (swaps) and a safe instrument (T-bonds) has resurrected

fears of a credit crunch and possible increased market volatility.

Another popular yield spread, though, seems not to indicate such troubles. The spread between on-the-run (the most recently issued) and off-the-run 30-year T-bonds has shown only modest movement in 1999. A nascent credit crunch, accompanied by a flight to liquidity, would be expected to drive down yields on the very liquid on-the-run bonds and thus widen the spread. This occurred in the fall of 1998, but is not apparent now.

Spreads or snapshots of the yield curve often bring out important elements of the data, but they do a poor job of describing how the whole yield curve evolves through time. A bird's-eye view of the past two decades emphasizes the relative placidity of the recent bond market. Compared to the beginning of the year, the yield curve seems to have made some significant jumps and twists, but its movements look much less impressive when placed in historical context.