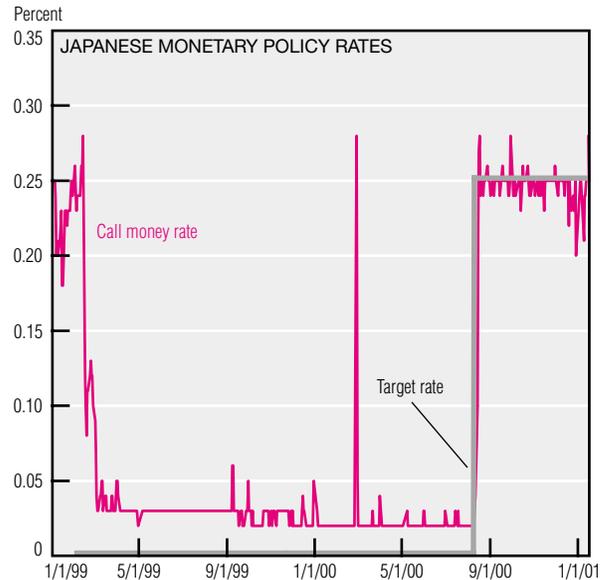
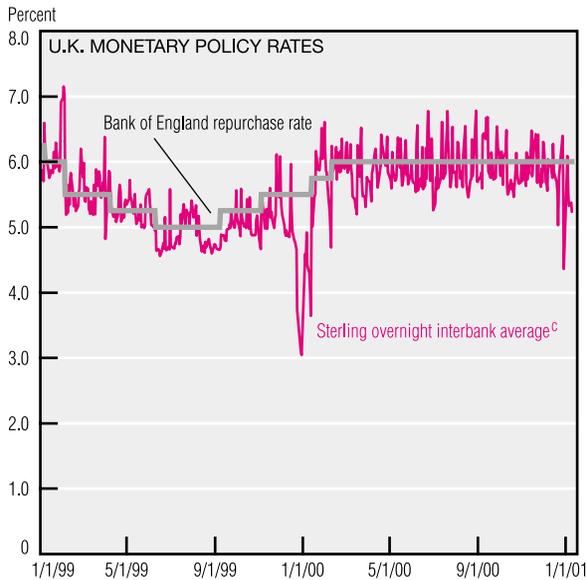
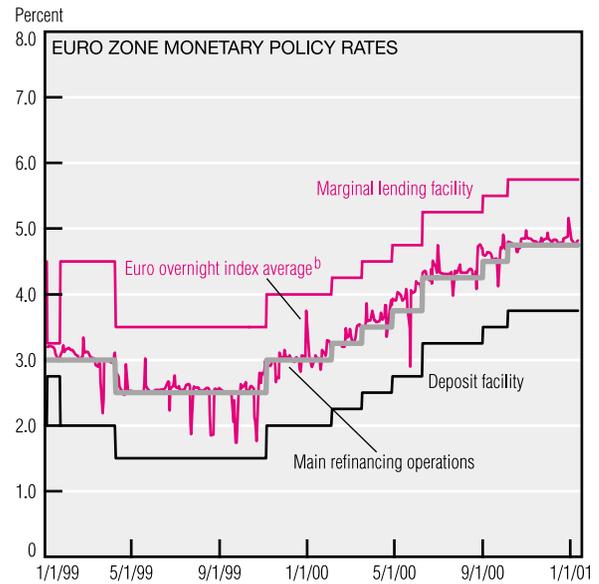
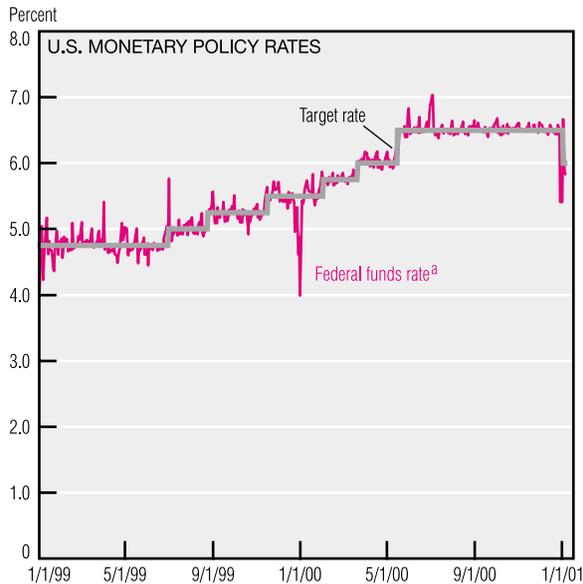


Foreign Central Banks



a. The weighted average of rates on trades made through New York City brokers.

b. The weighted average rate on all overnight unsecured lending transactions in the interbank market, initiated within the euro area by contributing panel banks.

c. The weighted average rate of all brokered unsecured sterling overnight deals between money market institutions and their overseas branches, transacted between midnight and 3:30 p.m. GMT.

SOURCES: Board of Governors of the Federal Reserve System; and Wholesale Markets Brokers Association.

Central banks for the major currencies use somewhat different institutional and market devices to implement policy. Despite these differences, in the very short run they all operate in ways that lead daily overnight market interest rates along a desired path—albeit with more or less interday volatility.

In the U.S., the first of two January reductions (50 basis points each) in the intended federal funds rate was largely unexpected, but the market rate immediately dropped and has remained near 6%. The

European Central Bank, at its regular bi-weekly meeting the next day and again on January 18, kept the rate on its main refinancing facility unchanged at 4.75%. Consequently, the European overnight index average has shown no clear change.

The sterling overnight interbank rate seemed to move in the same direction as the federal funds rate early in January, perhaps in anticipation of a similar policy move by the Monetary Policy Committee. The Committee, however, made no change in the 6% Bank of England RP rate at its

regular monthly meeting on January 11. The Japanese call money market seemed to be anticipating a Bank of Japan rate cut at the end of last year. But after the Bank's regular monetary policy meeting on January 19, Governor Hayami instructed its staff to "examine the possible room for further improvements in the way of liquidity provision to the market, with a view to ensuring the smooth functioning and stability of the financial market" and to report the results to the Policy Board by its next meeting on February 9.