

DAILY GLOBAL COMMENTARY

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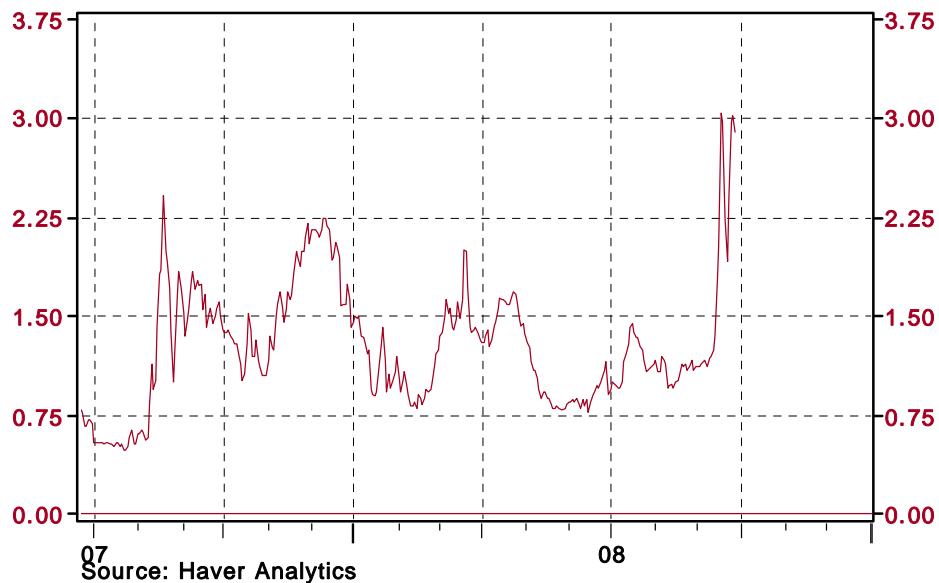
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Fed and Other Central Banks Pump Liquidity, TARP Bill Rejected September 29, 2008

The Federal Reserve Bank, Bank of England, European Central Bank, Bank of Japan, Bank of Canada, Bank of Norway, Bank of Sweden, Reserve Bank of Australia, and Bank of Denmark, undertook a gigantic liquidity operation to reduce stress in money markets today. The Fed raised swap lines to other central banks to \$620 billion from \$290 billion. The Fed also announced additional liquidity measures to clear clogged money markets. The amount of credit under the 84-day maturity credit TAF auction was raised to \$75 billion, which is three times the existing amount of \$25 billion. TAF credit at the 28-day maturity will remain at \$75 billion. The total amount of TAF credit available in the 28-day and 84-day auction cycles will double to \$300 billion from \$150 billion. The details of the TAF forward auctions are not published, but these are aimed to provide term funding at year-end. It is expected that there will be two auctions totaling \$150 billion. The spread between the 3-month Libor and 3-month Treasury bill reached a new high of 377 bps (333 bps – 11 bps) on September 29, data points stop on September 26 in chart 1.

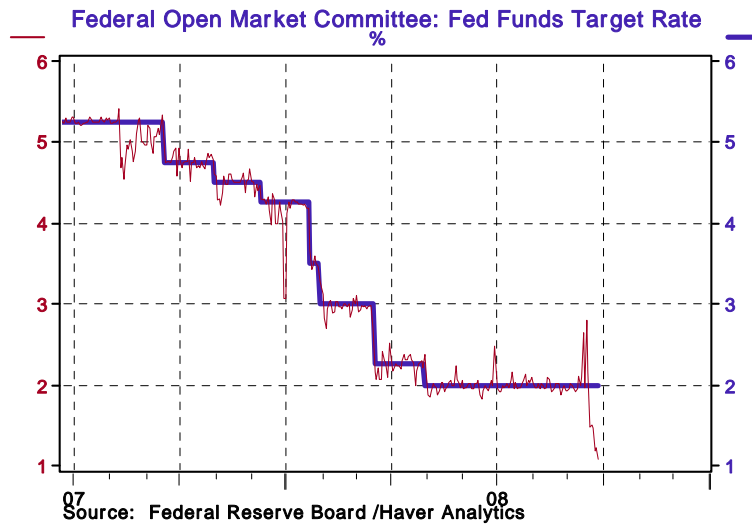
Chart 1

3-month Libor less 3-Month Treasury Bill rate percent



The effective federal funds rate has held far below the target federal funds rate for six consecutive days, see chart 2.

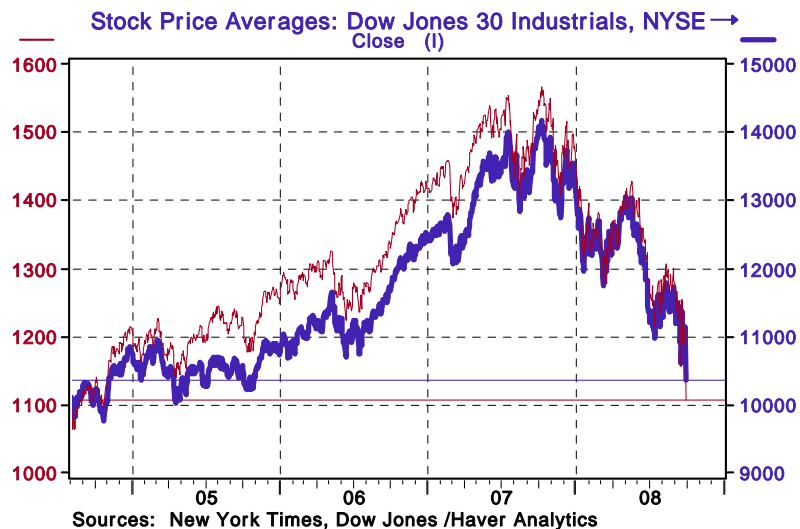
Chart 2
Federal Funds [effective] Rate
 % p.a.



In the meanwhile, Citibank bought Wachovia. Across the Atlantic, respective governments rescued Bradford & Bingley of UK, Fortis of Belgium, Glitnir of Iceland, and Germany's Hypo Real Estate.

The House of Representatives rejected the modified Troubled Asset Relief Plan (TARP), 228-205; 133 Republicans and 95 Democrats cast their vote against the program. Equity prices plunged following the rejection of the bill. The S&P 500 fell 8.8% to 1106.42, the lowest since October 20, 2004 and the Dow Jones declined 6.89% (down 777.68 points) to 10365.45 (see chart 3). Stock prices fell 4.23%, 5.0%, and 5.3% in Frankfurt, Paris, and London, respectively (see chart 4).

Chart 3
 ← **Standard & Poor's 500 Stock Price Index**
 1941-43=10 (I)



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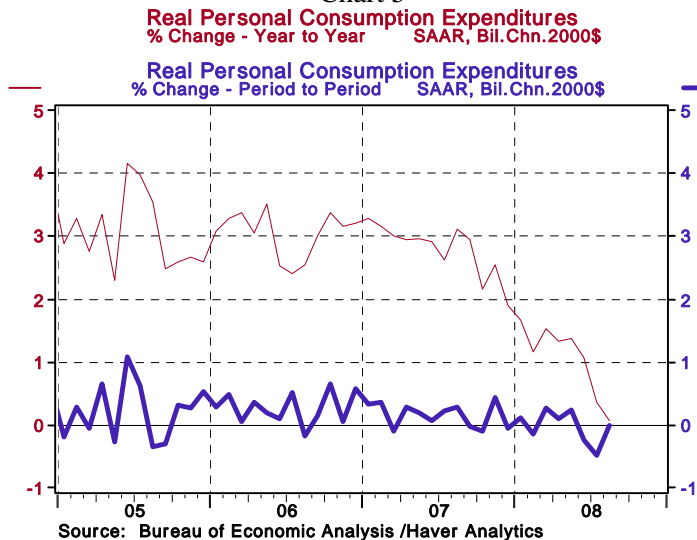
Chart 4



Q3 Consumer Spending Should Post First Quarterly Decline Since 1991

Inflation adjusted consumer spending held steady in August after two consecutive monthly declines. Purchases of durables rose 1.6% but outlays of non-durables (-0.3%) and services (-0.1%) declined in August. The July-August data point to a possible drop in consumer spending during the third quarter. If the forecast is accurate, it would be the first quarterly decline since fourth quarter of 1991. Given the importance of consumer spending in GDP, a drop in consumer spending in the third quarter raises the probability of a contraction in real GDP in the third quarter.

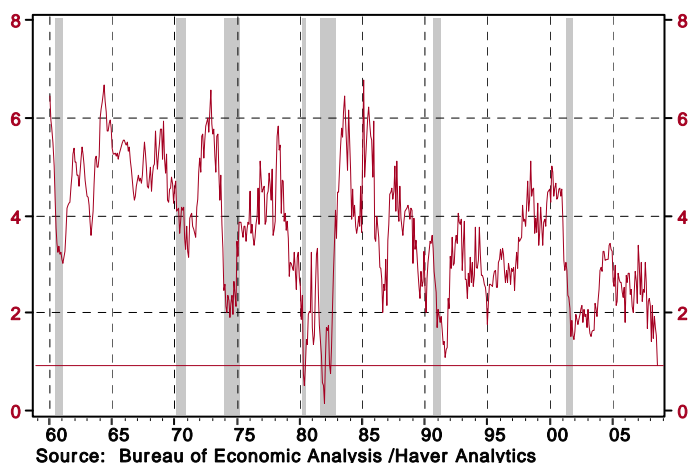
Chart 5



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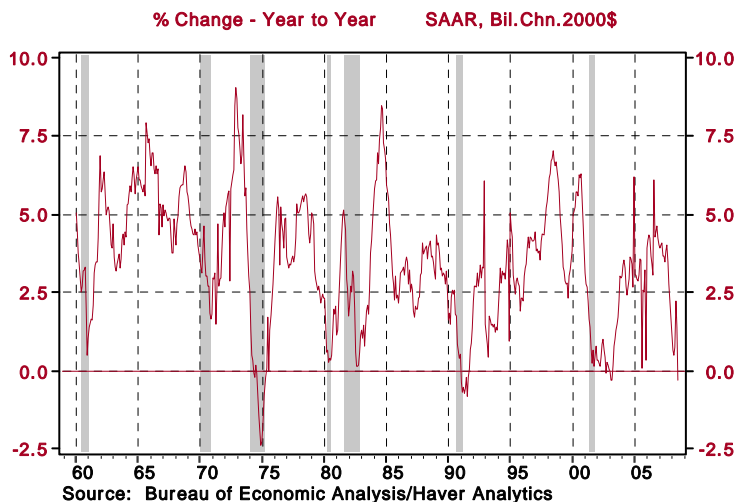
Service sector outlays are the relatively steady component of consumer spending. Purchases of consumer services turned negative on a year-to-year basis only in the 1980 and 1981-82 recessions (see chart 6). In August, service sector spending rose only 0.94% from a year ago, the smallest increase since the 1981-82 recession.

Chart 6
Real Personal Consumption Expenditures: Services
 % Change - Year to Year SAAR, Bil.Chn.2000\$



Nominal personal income advanced 0.5% in August, reflecting a 0.4% increase in wages and salaries. Real personal income fell 1.4% in August, putting the year-to-year change at -0.34%. Personal income is a coincident indicator, implying fundamentally weak economic conditions cannot be denied any longer. A decline in personal income on a year-to-year basis is associated with recessions, although there are several recessions when personal income grew noticeably slowly but did not turn negative (see chart 7). Personal saving as percentage of disposable income was 1.0% in August vs. 1.9% in July.

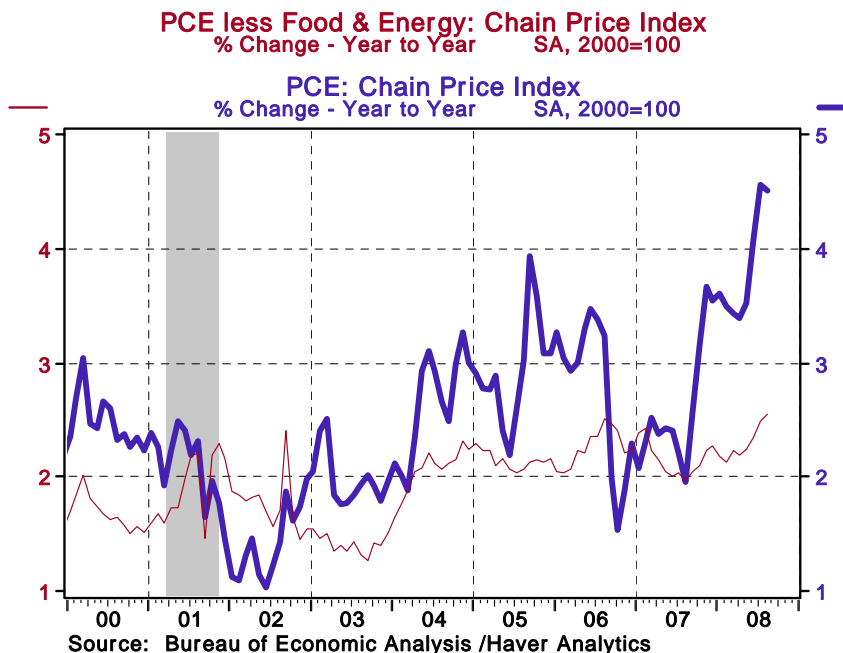
Chart 7
Real Personal Income



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The personal consumption expenditure price index advanced 4.51% from a year ago and the core personal consumption expenditure price index, which excludes food and energy, moved up 2.56% in August. Inflation is predicted to moderate as economic conditions weaken further, particularly given the credit crunch that is underway.

Chart 8



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