

DAILY GLOBAL COMMENTARY

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Credit Market Conditions – An Update
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Credit market spreads have widened since early-February from the short-end to the long and risky end. As charts 1-3 and table 1 indicate, the widening of the spreads has occurred even as the Fed is acting aggressively to enhance credit availability and reduce the cost of credit.

Chart 1
 Spread: 3-Month Libor less 3-Month Treasury Bill Rate

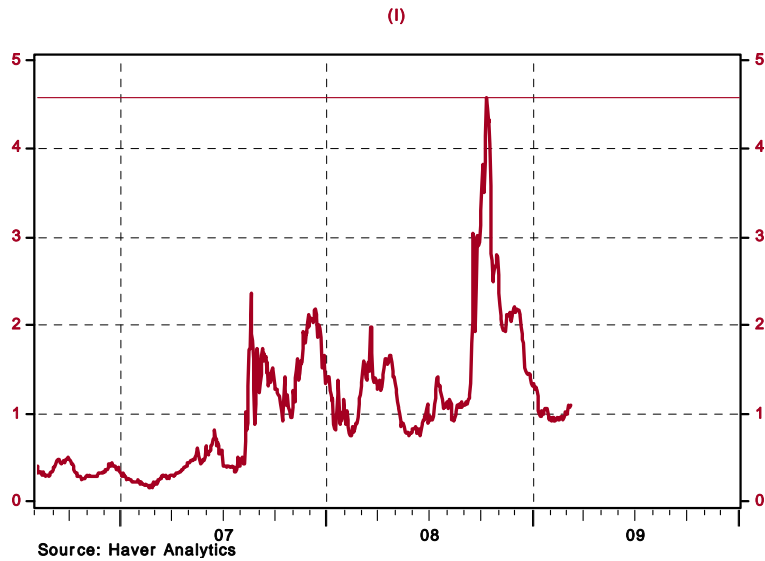
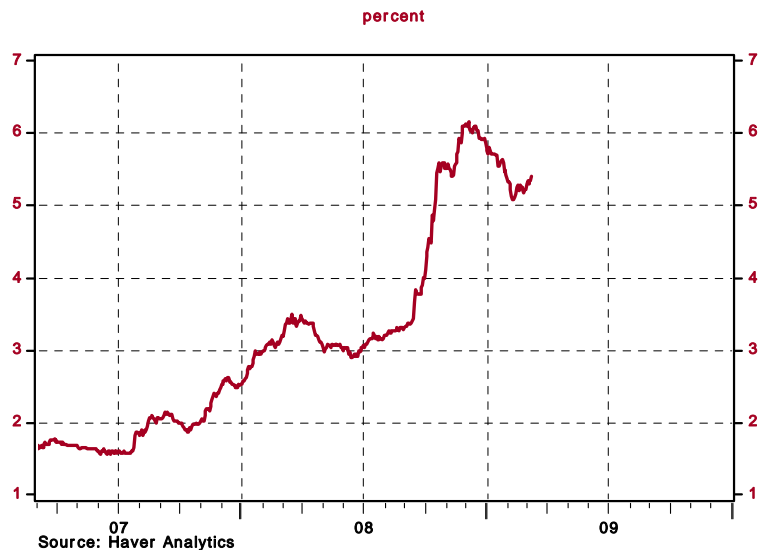


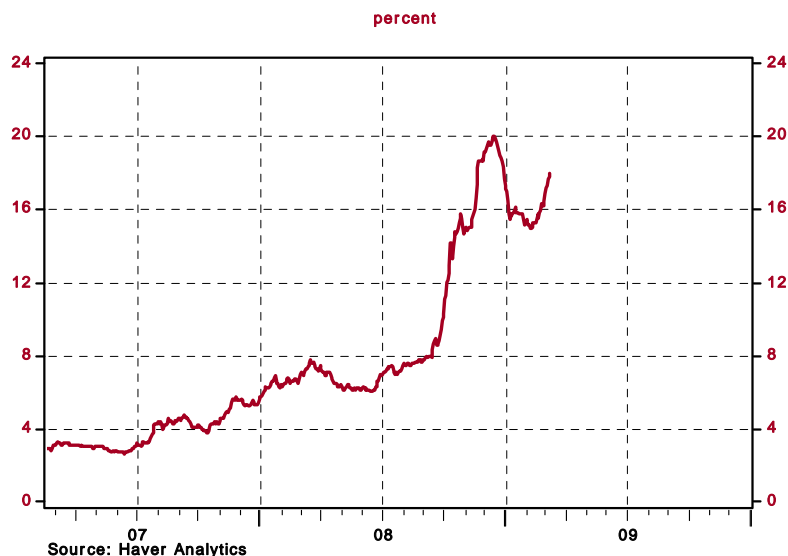
Chart 2
 Spread: Moody's Baa less 10-year U.S. Treasury Note Yield



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Chart 3

Spread: Merrill Lynch Junk Bond yield less 10-year Treasury Note yield



Clarity and action with regard to the cleaning up of balance sheets of banks appears to be necessary for credit market conditions to improve. The operation of the TALF program is another factor that should ease credit market conditions.

Table 1 Recent Credit Market Spreads (percent)

	3/10/2009	3/9/2009	2/10/2009	2/9/2009
3-month Libor less 3-month T-Bill rate	1.09	1.08	0.911	0.908
Moody's Baa less 10-year Treasury Bond		5.40	5.08	5.09
Junk bond yield less 10-year Treasury Bond		17.95	15.02	14.95

The first disbursement of funds under the Term Asset-Backed Securities Loan Facility (TALF) will be on March 25, 2009. The TALF program is designed to increase credit availability and support economic activity by facilitating renewed issuance of consumer and small business asset backed securities (ABS) at more normal interest rate spreads. The TALF program should reduce the unusually high risk premiums that have emerged in this sector and raise credit availability. We will be watching developments in this sector closely. The ABS markets have funded a large share of consumer credit and U.S. Small Business Administration guaranteed small business loans. Fed and Treasury support in these markets could significantly lift the availability of credit to households and small businesses and thereby contribute to a recovery of economic activity.

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