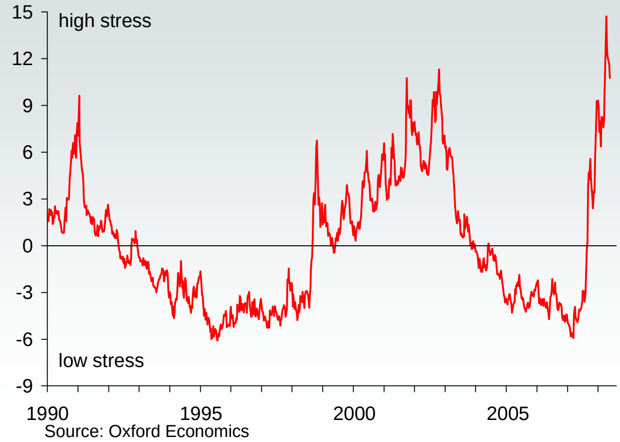
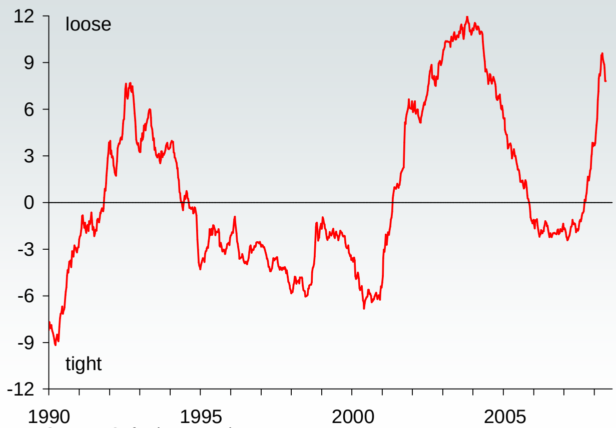
Credit Crunch Watch

US: Financial stress indicator



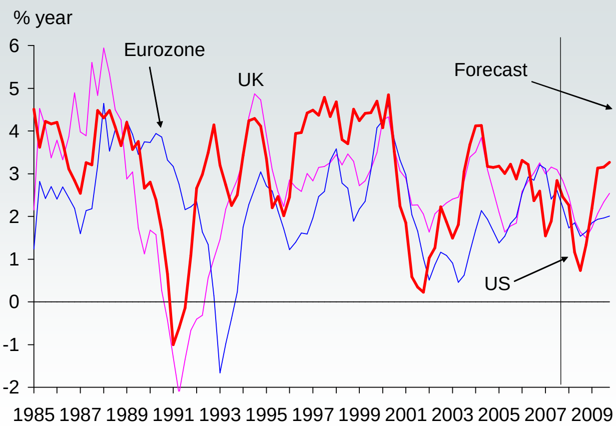
Source: Oxford Economics

US: Monetary conditions indicator



Source: Oxford Economics

World: GDP growth



Source: Oxford Economics

Financial stress indicator

- The financial stress indicator is a composite index of a number of indicators including risk spreads, mortgage spreads, equity volatility, commercial paper and commercial loans outstanding and the spread of LIBOR rates over T-Bill rates. In recent weeks the VIX volatility index and corporate risk spreads have steadily edged down from their peaks reached in mid-March. In addition in the latest week the LIBOR-T-Bill spread has narrowed, though it remains very high by historic standards, as do risk spreads. In overall terms, although the financial stress indicator has fallen to its lowest level since the end of February, it is far from signalling that conditions have "normalised". This impression is reinforced by the persistently wide spreads of LIBOR relative to the key policy rates in the US, UK and Eurozone.

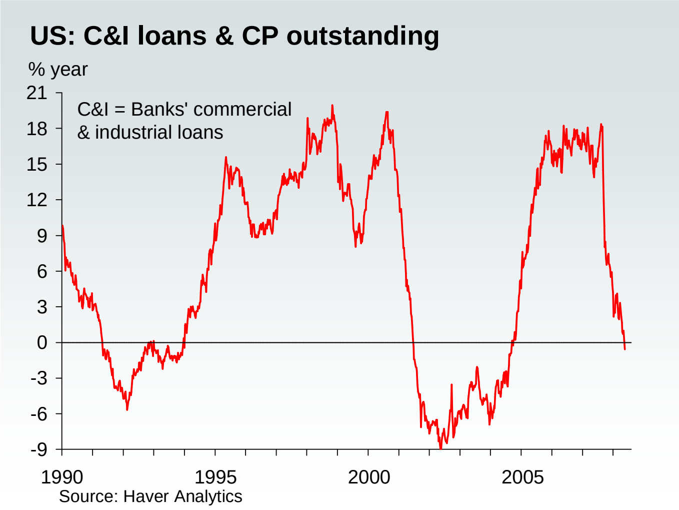
Monetary conditions indicator

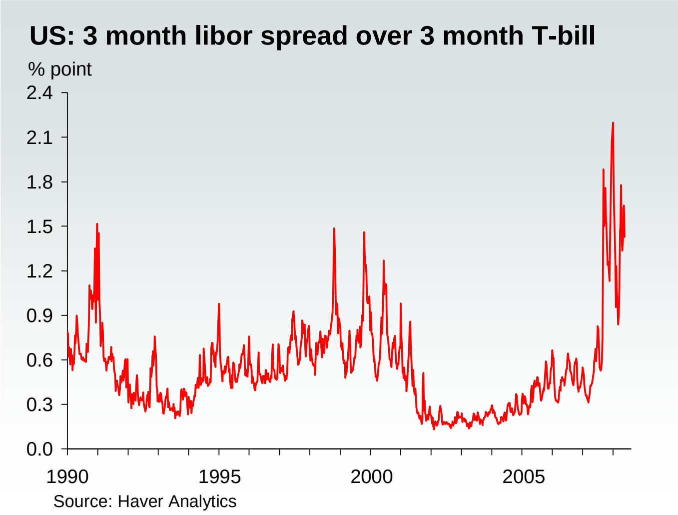
- The monetary conditions indicator is a composite index based on the Fed funds rate, the 10-year bond yield, the yield curve slope and the effective or trade-weighted dollar exchange rate. In the week or so prior to the latest FOMC meeting the US Treasury yield curve flattened significantly, as the market moved to factor in less aggressive interest rate cuts by the Fed. Many now expect that unless the economic or financial situation deteriorates unexpectedly that the Fed funds rate may move no lower than 2%. Meanwhile the trade-weighted dollar has edged higher. As a result, although monetary conditions remain very stimulative, they may not become any more so.

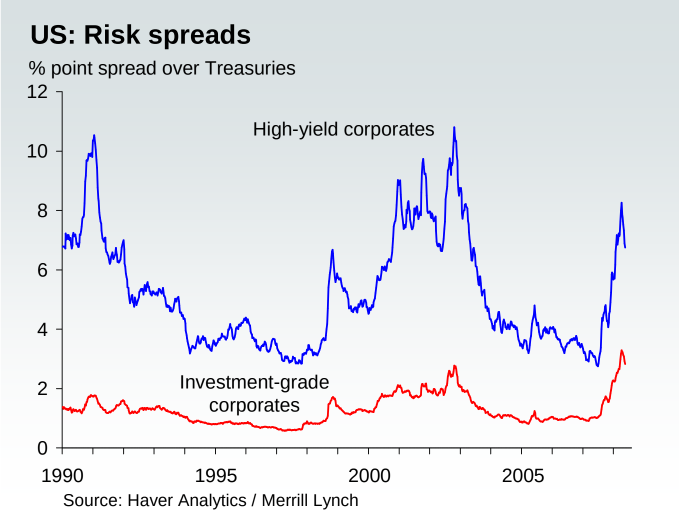
Growth forecasts – US, UK & Eurozone

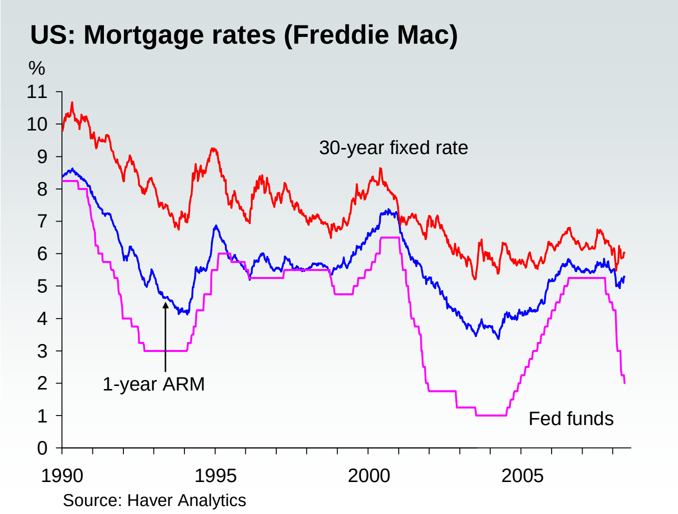
- Although recent data releases confirm that the US economy remains very weak, they were not quite as gloomy as some had expected. Q1 GDP saw an annualised rise of 0.6%, while non-farm payrolls only fell by 29k in April (the smallest decline since December) and the unemployment rate edged down a tenth to 5%. Meanwhile the manufacturing PMI in April held steady at 48.6, weak but a lot higher than the levels reported in 2001 (solid export orders remain a support). By contrast, the German IFO survey dropped sharply in April after rising during Q1. However, by historic standards it remains at a high level – so further falls may be required before it really starts to point to a much gloomier view on Germany than we currently have.

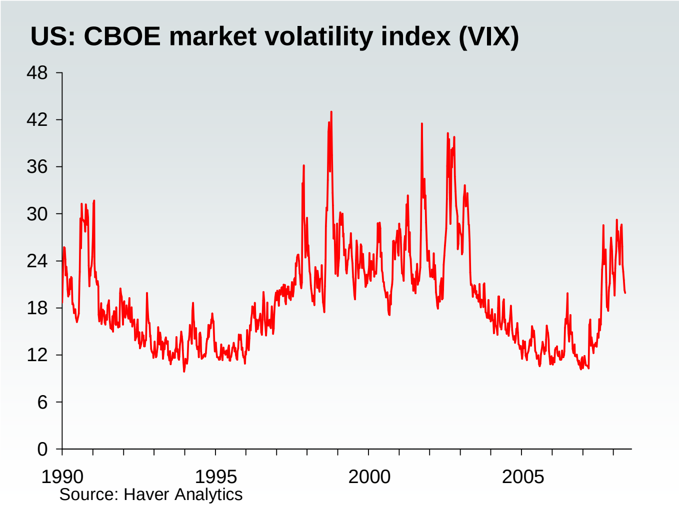
US financial stress measures

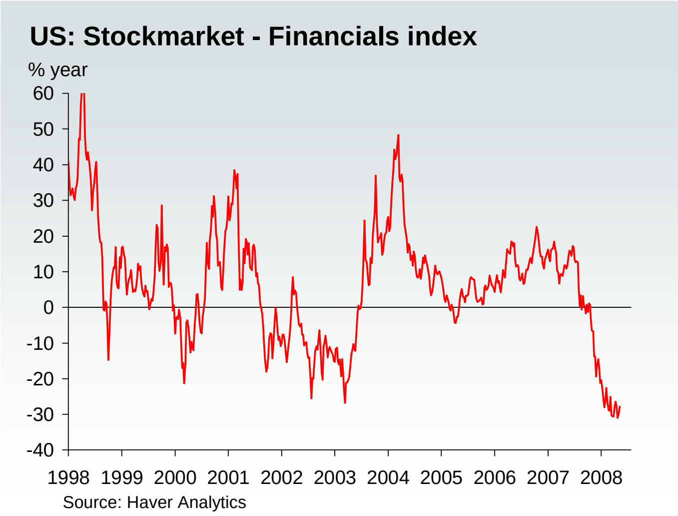






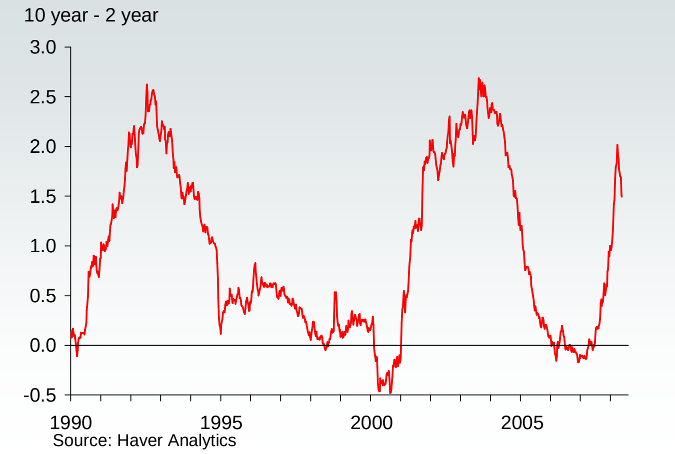




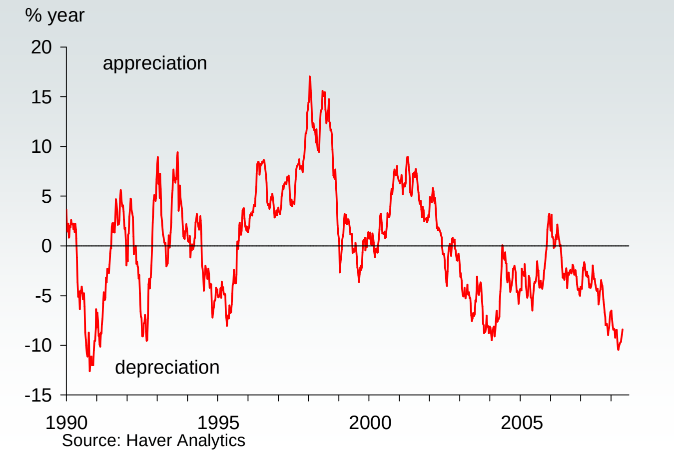


US monetary conditions & other indicators

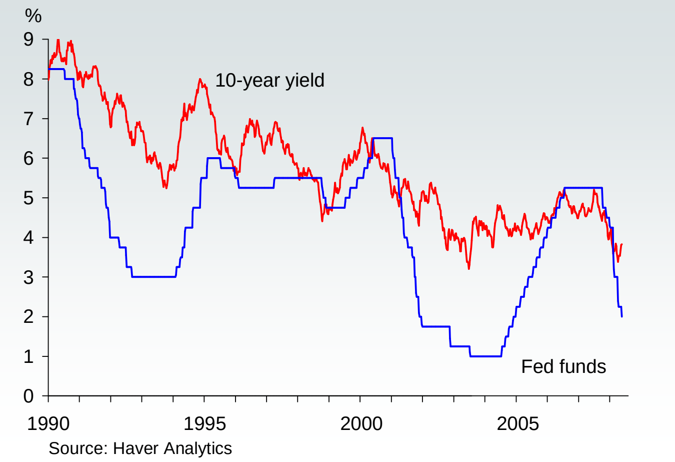
US: Yield curve slope



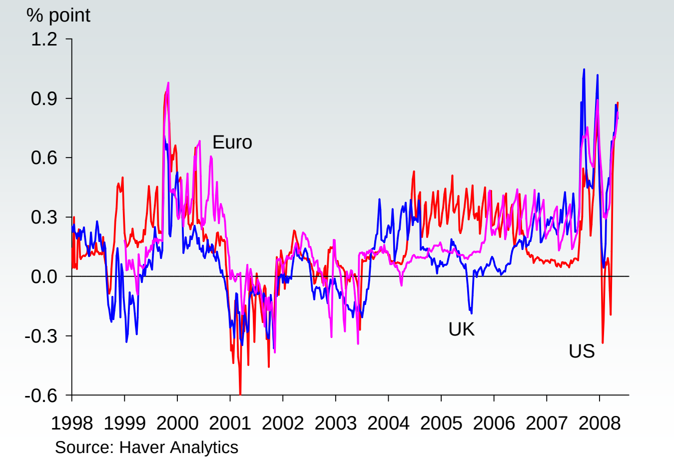
US: Exchange rate (trade weighted index)



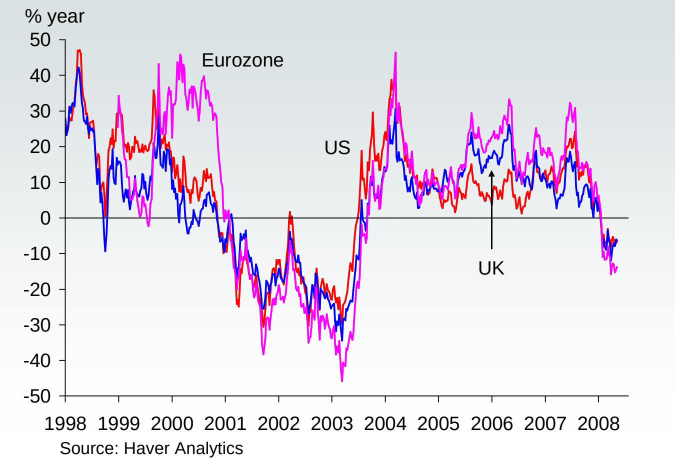
US: Fed funds rate & 10-year Treasury yield



US, UK & Euro: 3 month rates - policy rates



US, UK & Euro: Stockmarkets



US private payrolls and consumption