

Credit Crunch Watch

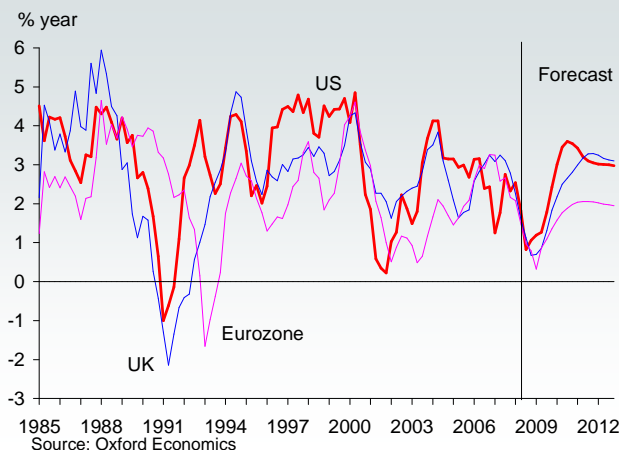
US: Financial stress indicator



US: Monetary conditions indicator



World: GDP growth



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. The indicator edged down slightly in the last week, thanks to a narrowing in the LIBOR-T-Bill spread, lower equity volatility and a slower annual rate of contraction of commercial paper (CP). But we should not read too much into this – a year ago the CP market collapsed and the overall stress level remains very high. And with rising concerns about global growth, the risk of increased default rates and thus further banking sector losses has increased of late.

Monetary conditions indicator

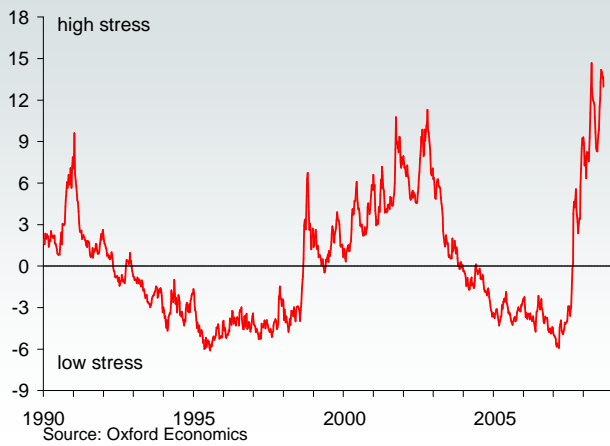
- The monetary conditions indicator is a composite index based on the Fed funds rate, the 10-year bond yield, the yield curve slope and the effective or trade-weighted dollar exchange rate. Monetary conditions have changed little in recent weeks, as a steepening yield curve – reflecting reduced market expectations of Fed rate hikes – has been offset by a strengthening dollar. This currency trend continued in the latest week as the dollar strengthened considerably, leading to a slight tightening of monetary conditions. But the scope for further tightening from this source looks limited given that the dollar has moved a long way in a short time, arguably further than justified by moves in interest rate expectations.

Growth forecasts – US, UK & Eurozone

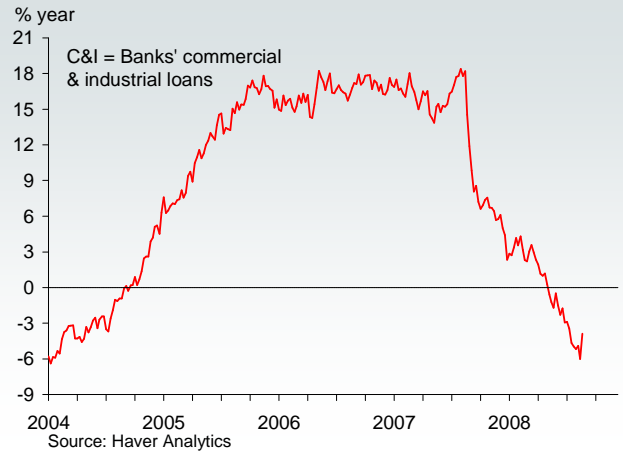
- This week's newsflow has again pointed toward increased downside risks for global growth, and especially in Europe. While German GDP fell less than expected in Q2, there were unexpected contractions in France and in the Eurozone as a whole. In the UK, the latest Bank of England forecasts pointed to zero growth over the next year, and were backed up by a much bigger rise in unemployment than expected for July. In Japan, Q2 GDP also registered a drop and there now looks to be a strong chance of a technical recession given the unfavourable indicators so far in Q3. In the US, July retail sales disappointed, again suggesting that Americans have been slow to spend their tax rebates in the face of weakening house prices and rising job losses. The latter was illustrated by another elevated number for weekly jobless claims of 450,000.

US financial stress measures

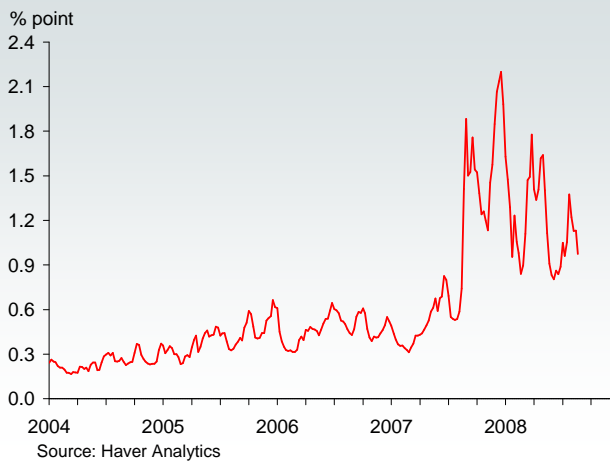
US: Financial stress indicator



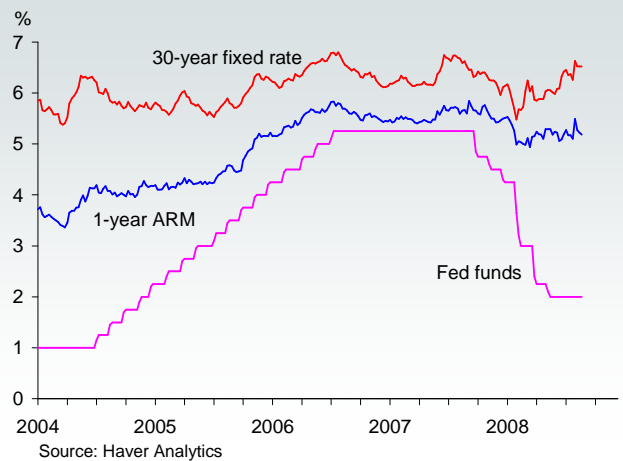
US: C&I loans & CP outstanding



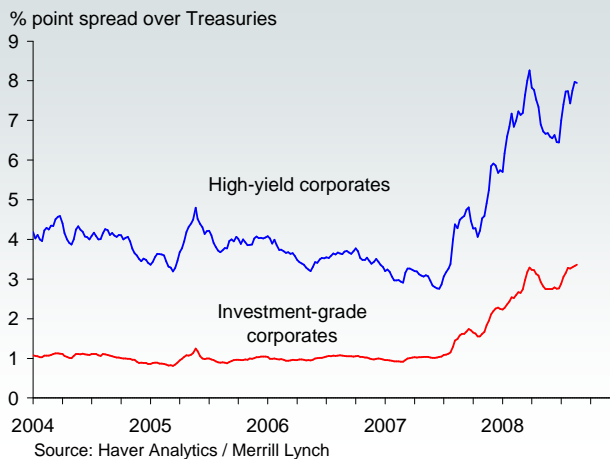
US: 3 month libor spread over 3 month T-bill



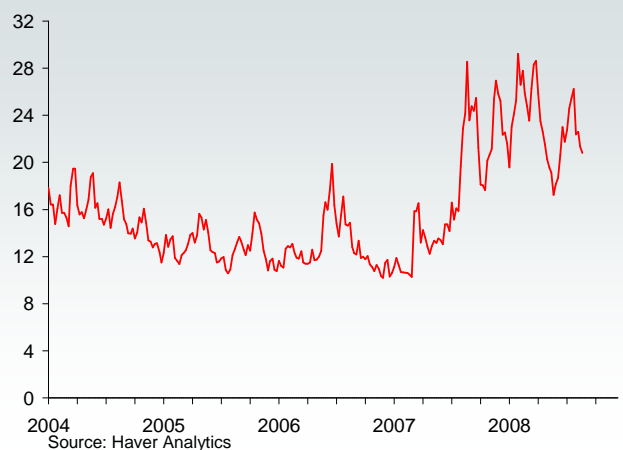
US: Mortgage rates (Freddie Mac)



US: Risk spreads

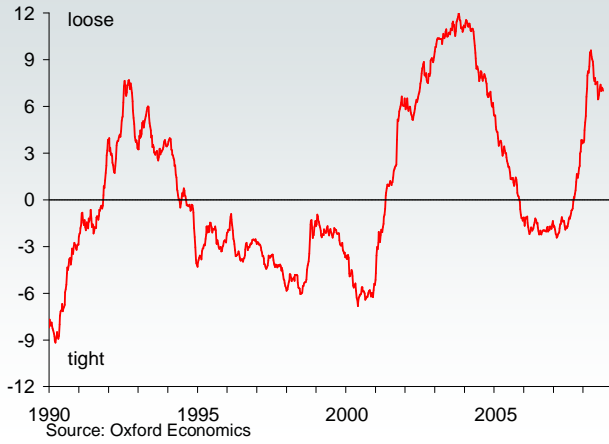


US: CBOE market volatility index (VIX)

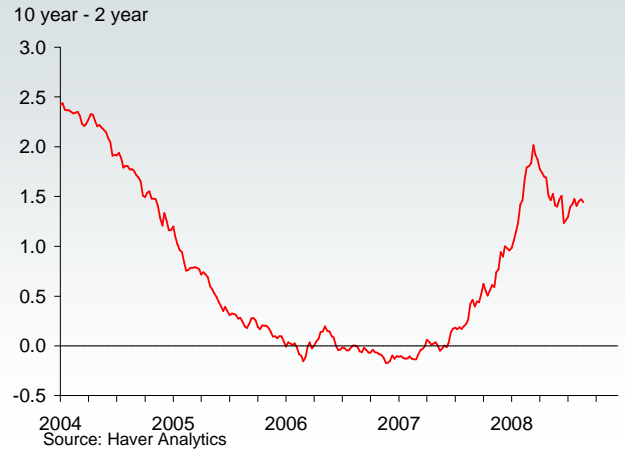


US monetary conditions & other indicators

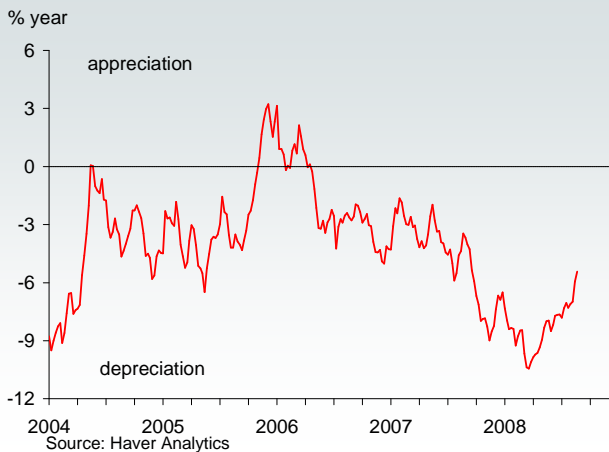
US: Monetary conditions indicator



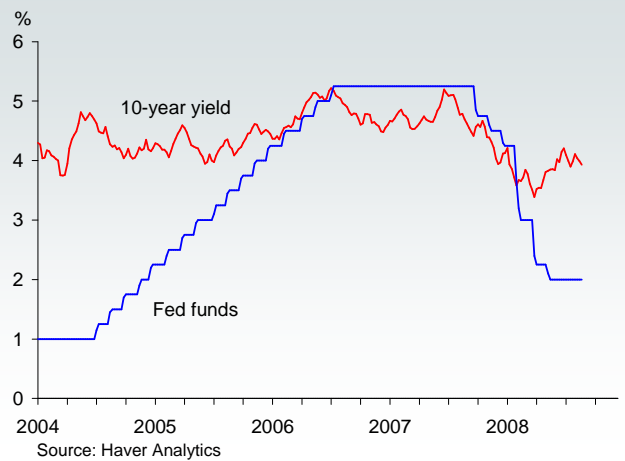
US: Yield curve slope



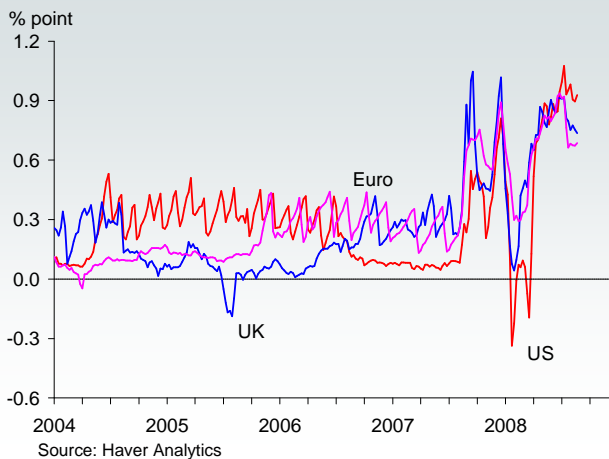
US: Exchange rate (trade weighted index)



US: Fed funds rate & 10-year Treasury yield



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



US private payrolls and consumption

