

Credit Crunch Watch

US: Financial stress indicator



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. During the last week the indicator has risen to a fresh high, above even the level seen during the Bear Stearns collapse in mid-March. There was upward pressure on most of the components of the index, with a particularly large rise in the LIBOR-T-Bill spread. This appears to reflect a renewed flight toward 'safe haven' assets in the wake of concerns about the health of the banking sector which were brought into sharp focus by the problems at US mortgage lenders Fannie Mae and Freddie Mac.

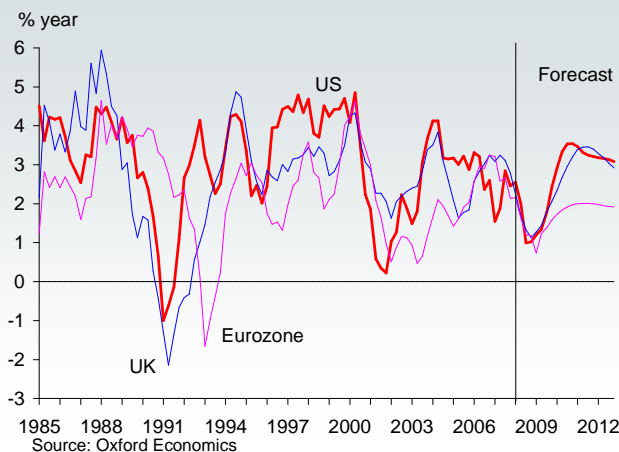
US: Monetary conditions indicator



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. Having tightened considerably since mid-March, monetary conditions have shown signs of moderately loosening again over the last few weeks. The main driver of this has been a steepening yield curve, the result of a significant drop in 2-year bond yields. This in turn reflects a significant paring back of expectations of Federal Reserve rate hikes over the next year relative to those prevailing in mid-June. Renewed dollar depreciation also had an impact over the last week.

World: GDP growth

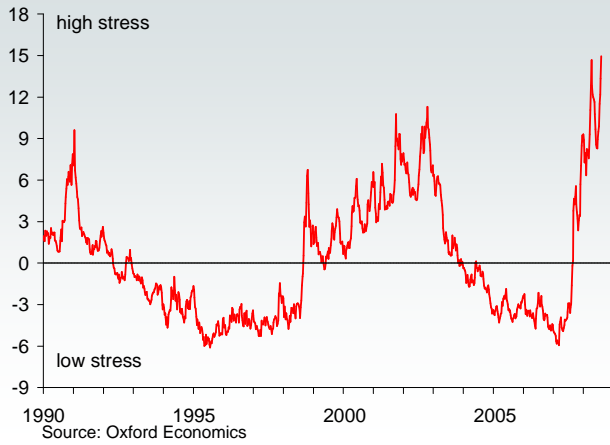


Growth forecasts – US, UK & Eurozone

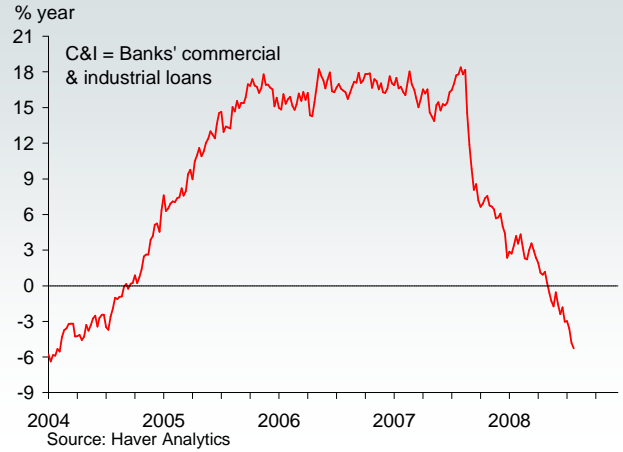
- Recent weeks have seen a renewed rise in global financial stress levels, amidst renewed concerns about the health of the global banking sector. The S&P financials index plunged by almost 30% between mid-May and mid-July – on top of an already significant drop since the start of the credit crunch. The US authorities' moves to shore up Fannie Mae and Freddie Mac may have averted an immediate financial maelstrom, but their activity is now likely to be reined in, meaning less cheap housing finance. And a number of other medium-sized institutions are in trouble. US bank credit growth is starting to shrink and financial conditions elsewhere also continue to tighten. With consumers also facing headwinds from high inflation and loosening labour markets, downside growth risks continue to prevail in the major industrial countries.

US financial stress measures

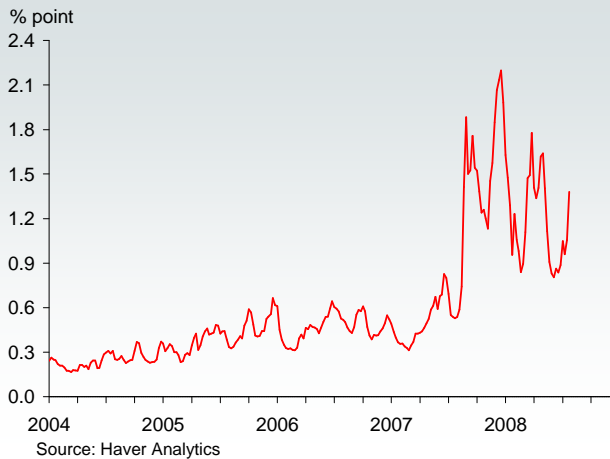
US: Financial stress indicator



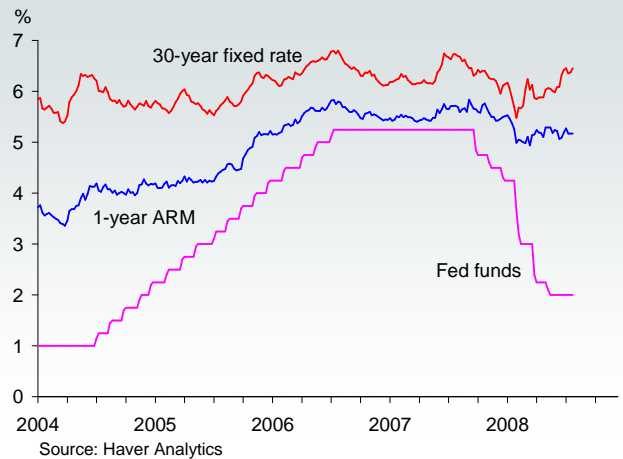
US: C&I loans & CP outstanding



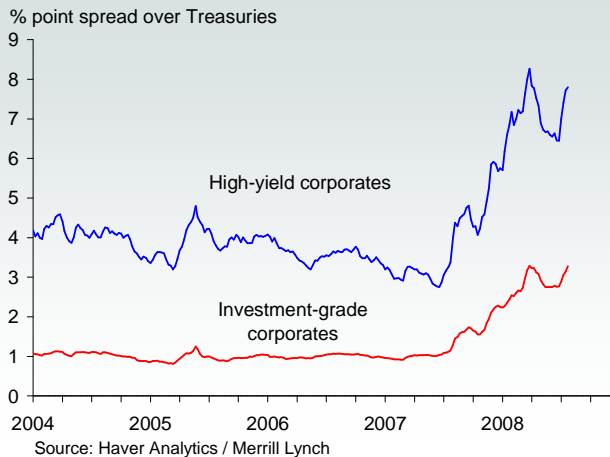
US: 3 month libor spread over 3 month T-bill



US: Mortgage rates (Freddie Mac)



US: Risk spreads

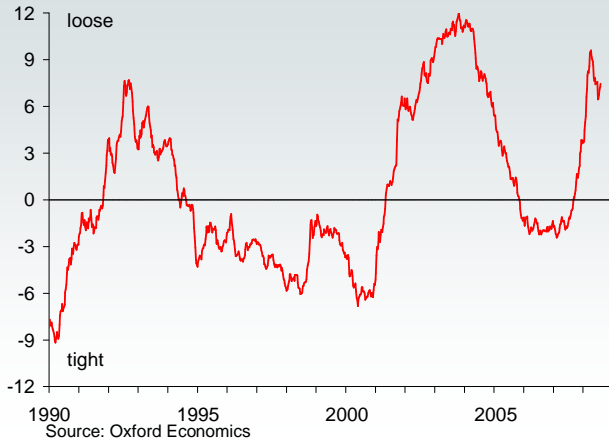


US: CBOE market volatility index (VIX)



US monetary conditions & other indicators

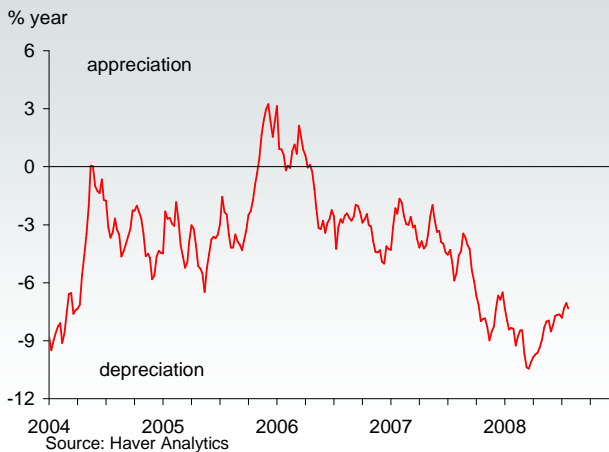
US: Monetary conditions indicator



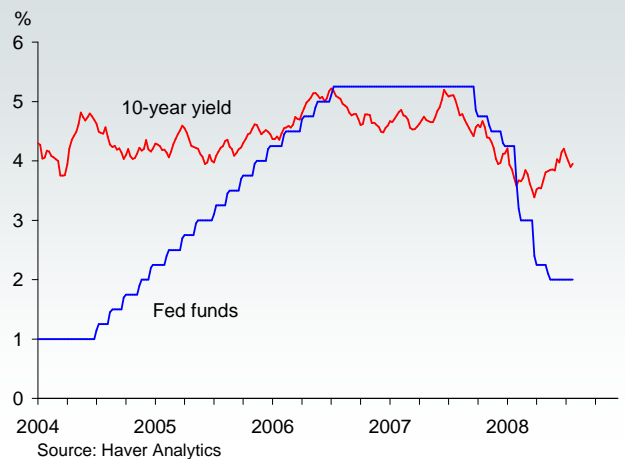
US: Yield curve slope



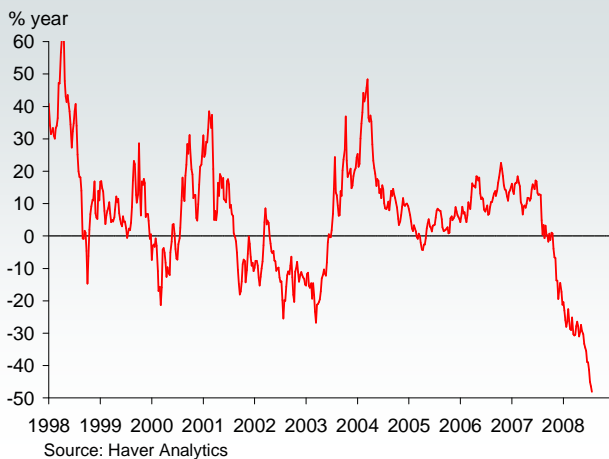
US: Exchange rate (trade weighted index)



US: Fed funds rate & 10-year Treasury yield



US: Stockmarket - Financials index



US private payrolls and consumption

