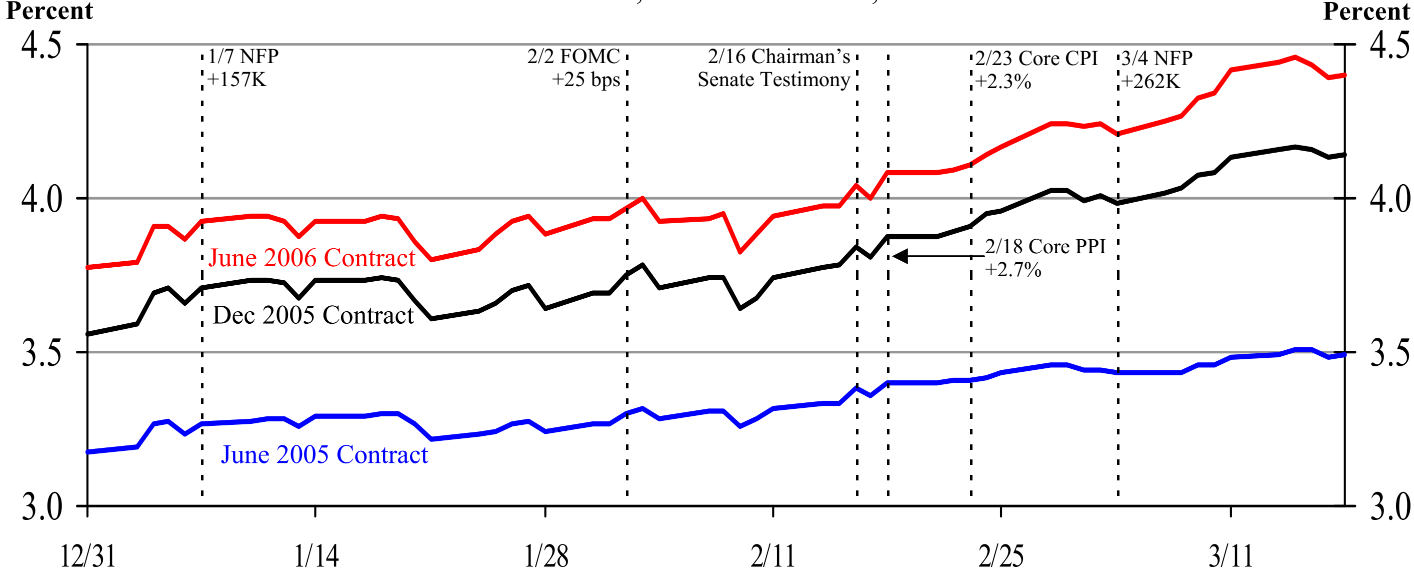
Appendix 1: Materials used by Mr. Kos

Page 1

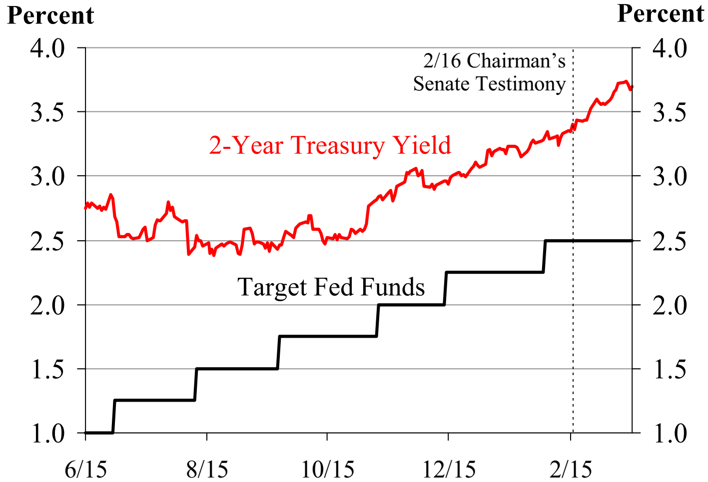
Implied Rates on Eurodollar Futures Contracts

December 31, 2004 – March 18, 2005



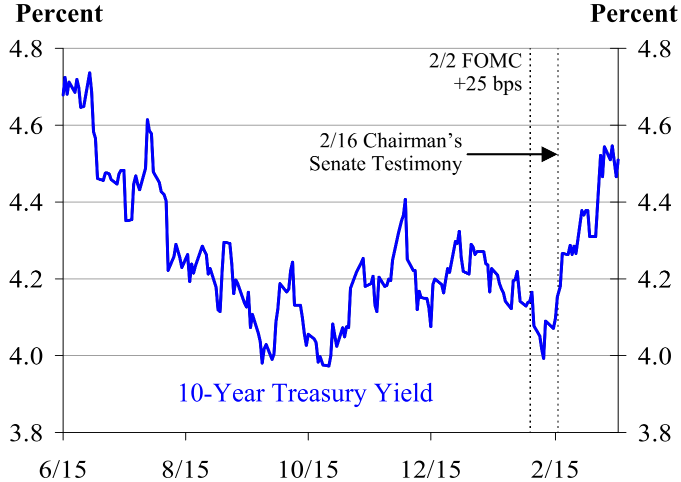
2-Year Treasury Yield and Target Fed Funds Rate

June 15, 2004 - March 18, 2005



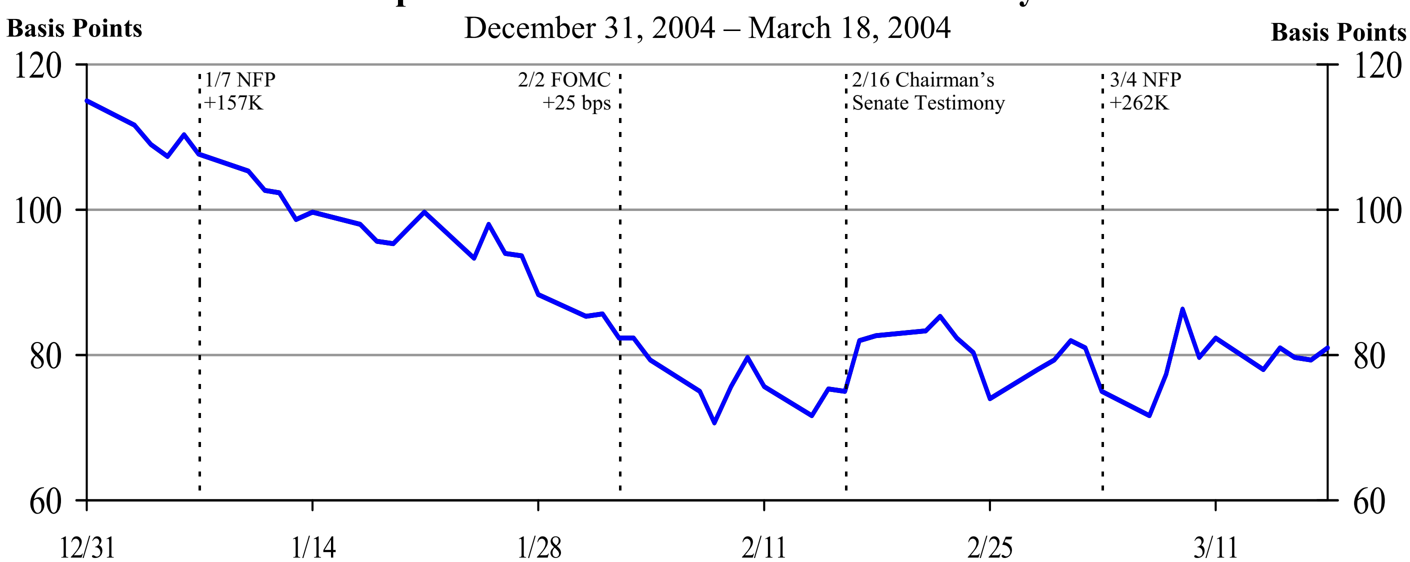
10-Year Treasury Yield

June 15, 2004 – March 18, 2005



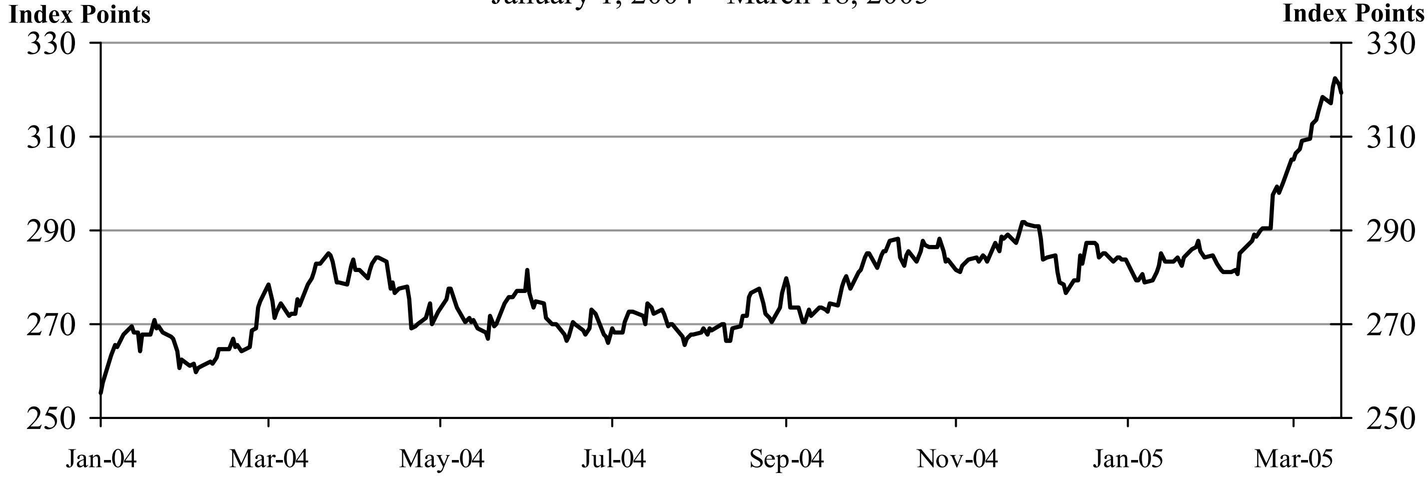
Yield Spread Between 2- and 10-Year Treasury Notes

December 31, 2004 – March 18, 2004



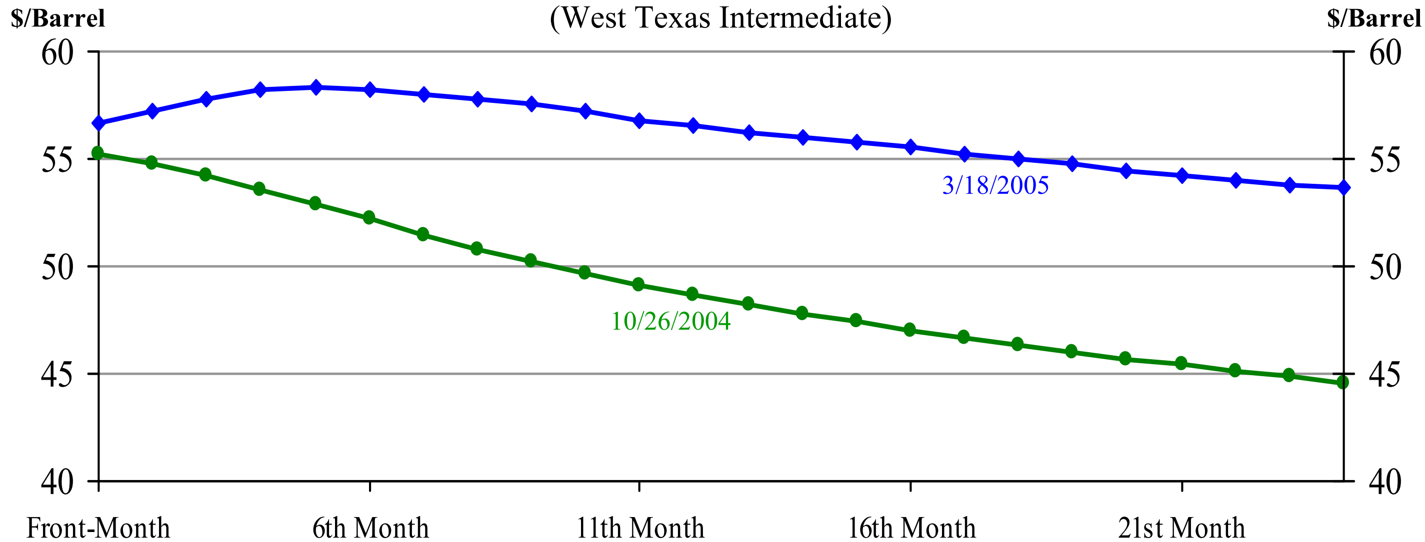
CRB Commodities Index

January 1, 2004 – March 18, 2005



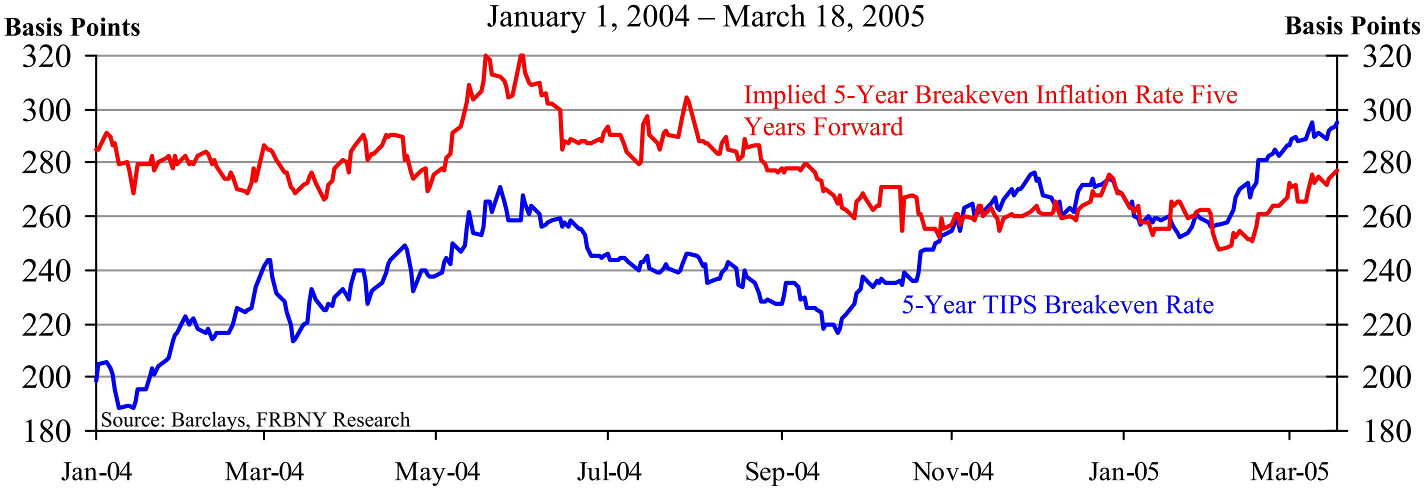
Crude Oil Futures Curve

(West Texas Intermediate)

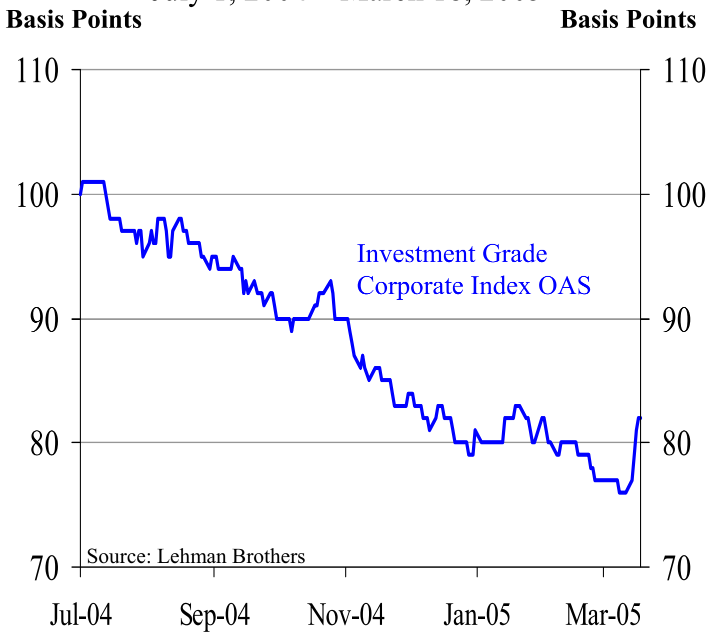


Inflation Expectation Measures Derived from TIPS

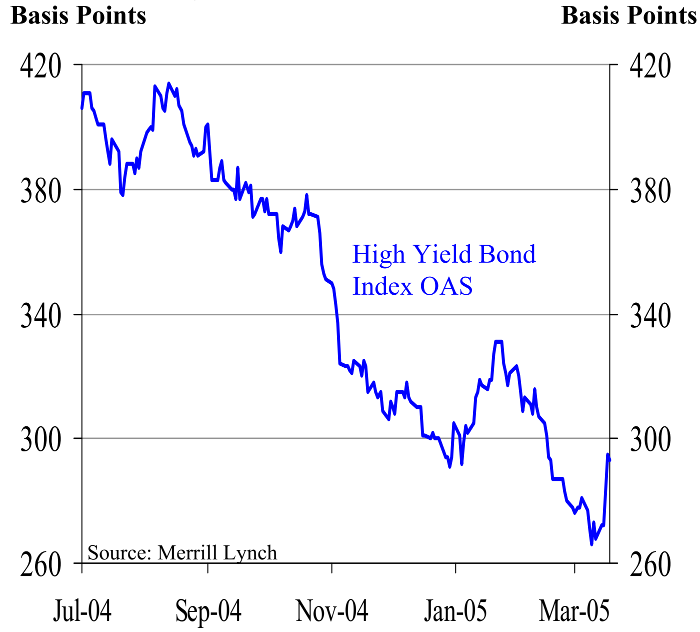
January 1, 2004 – March 18, 2005



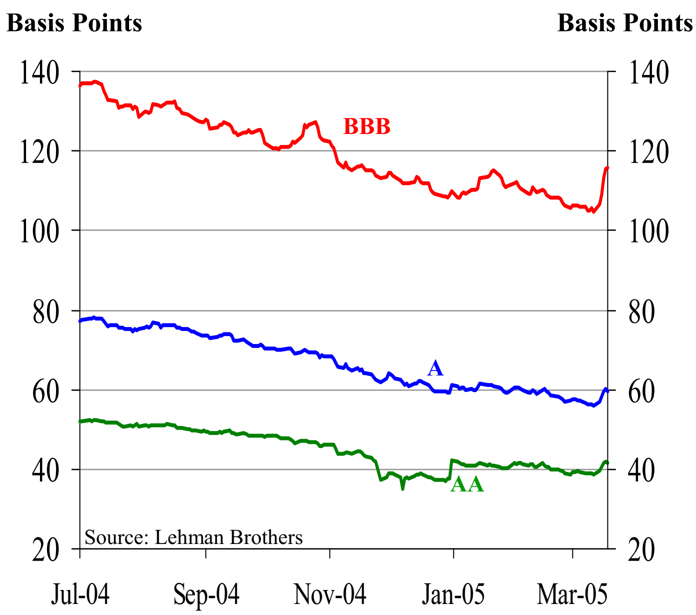
Investment Grade Corporate Debt Spread
July 1, 2004 – March 18, 2005



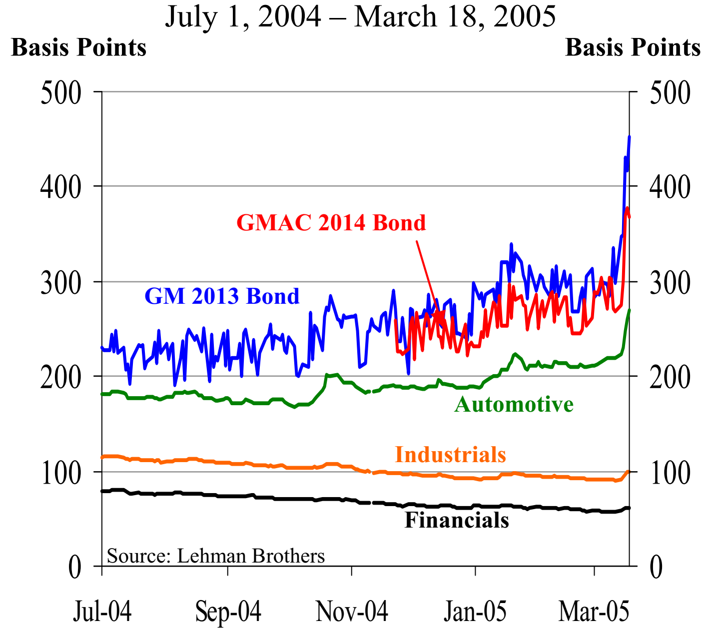
High Yield Debt Spread
July 1, 2004 – March 18, 2005



Investment Grade Spreads by Rating Category
July 1, 2004 – March 18, 2005

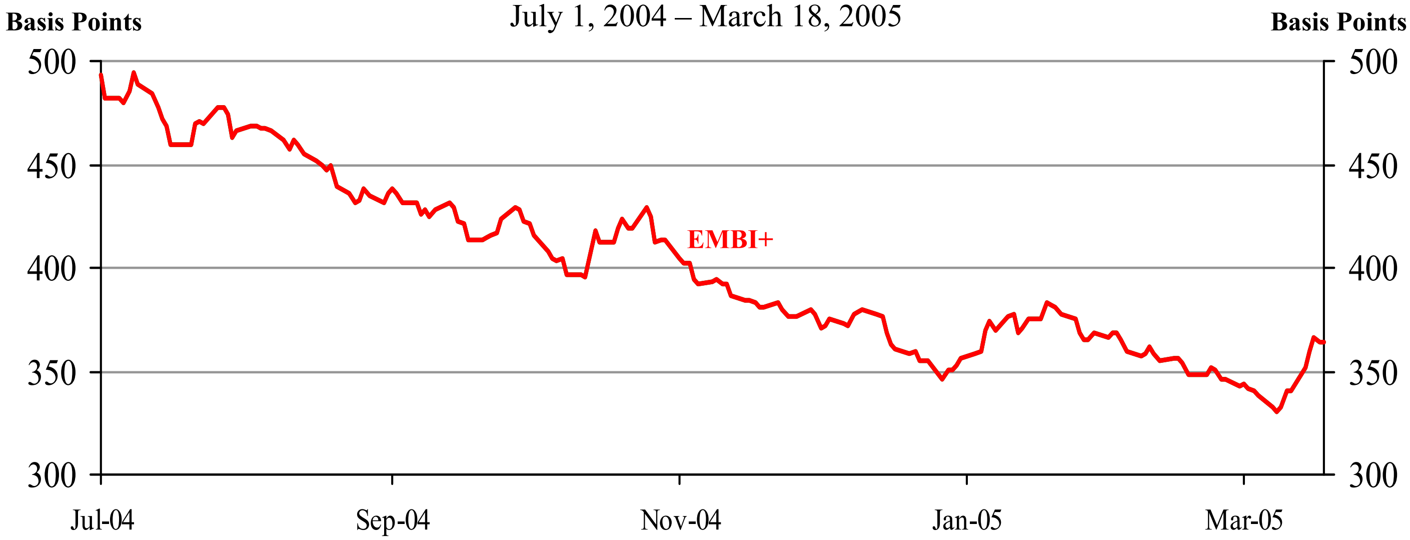


Select Investment Grade Sector and Company Spreads
July 1, 2004 – March 18, 2005

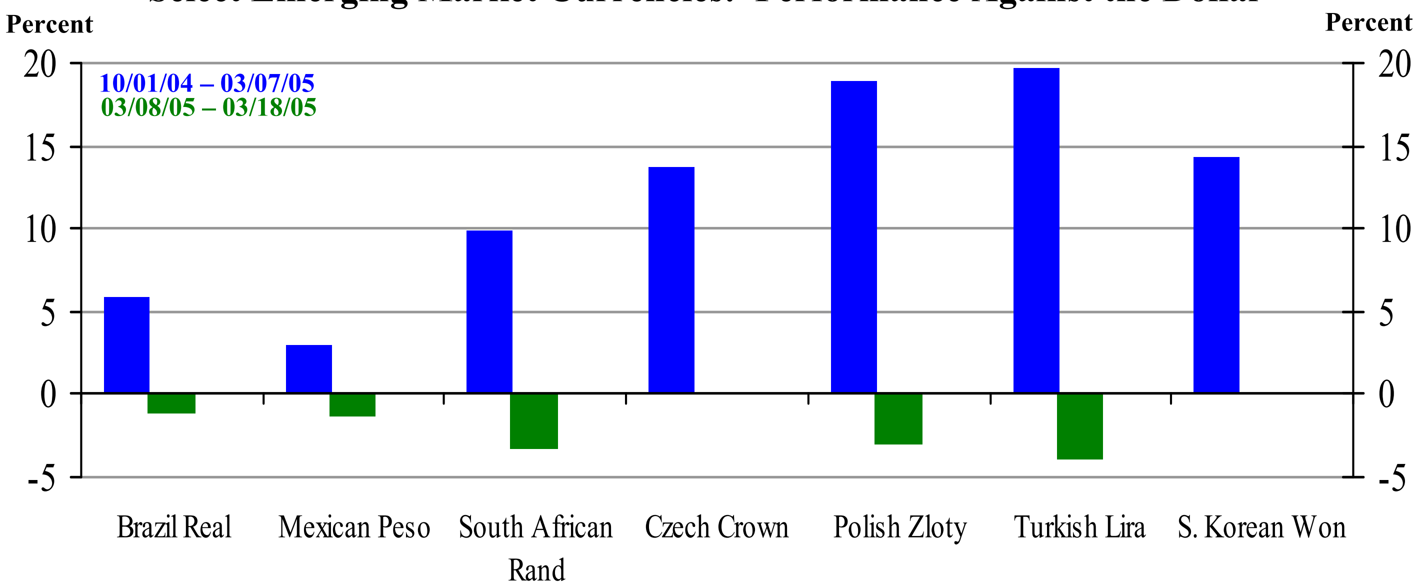


Emerging Market Debt Spreads

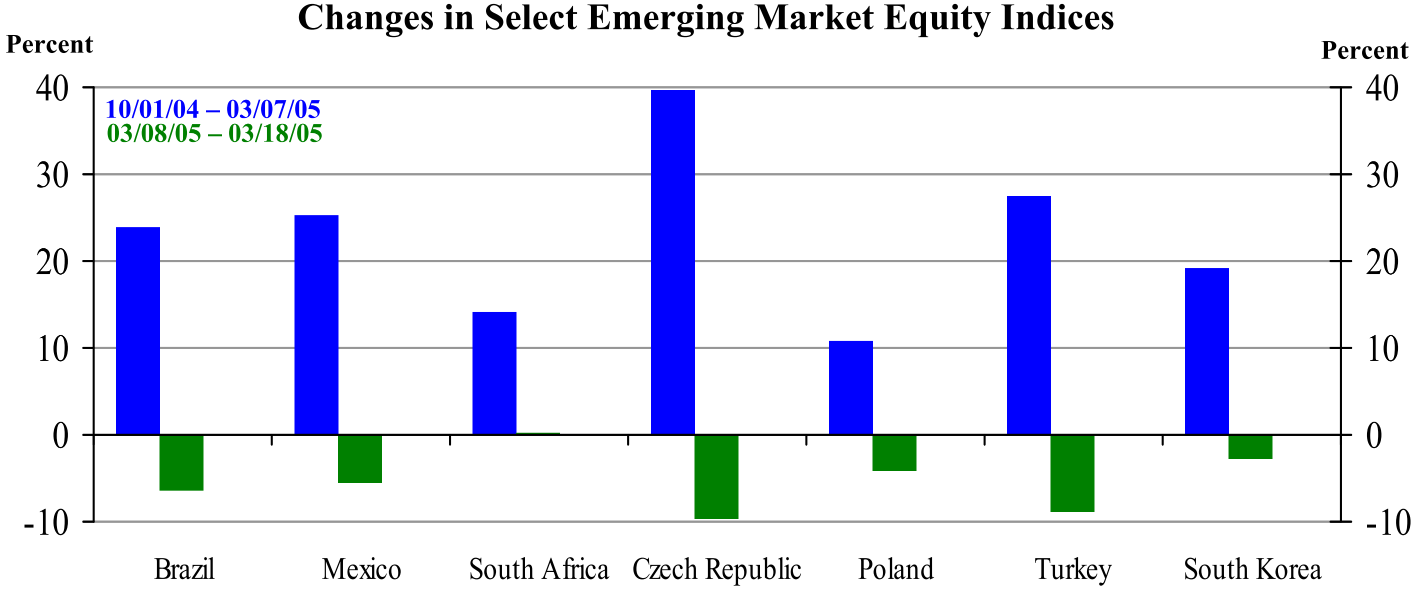
July 1, 2004 – March 18, 2005



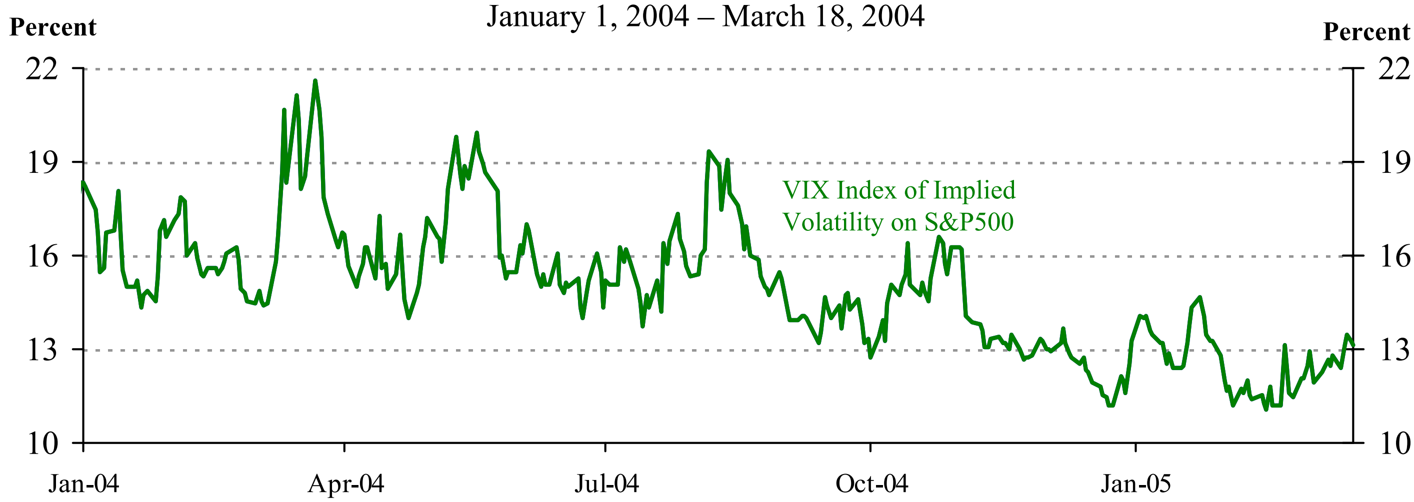
Select Emerging Market Currencies: Performance Against the Dollar



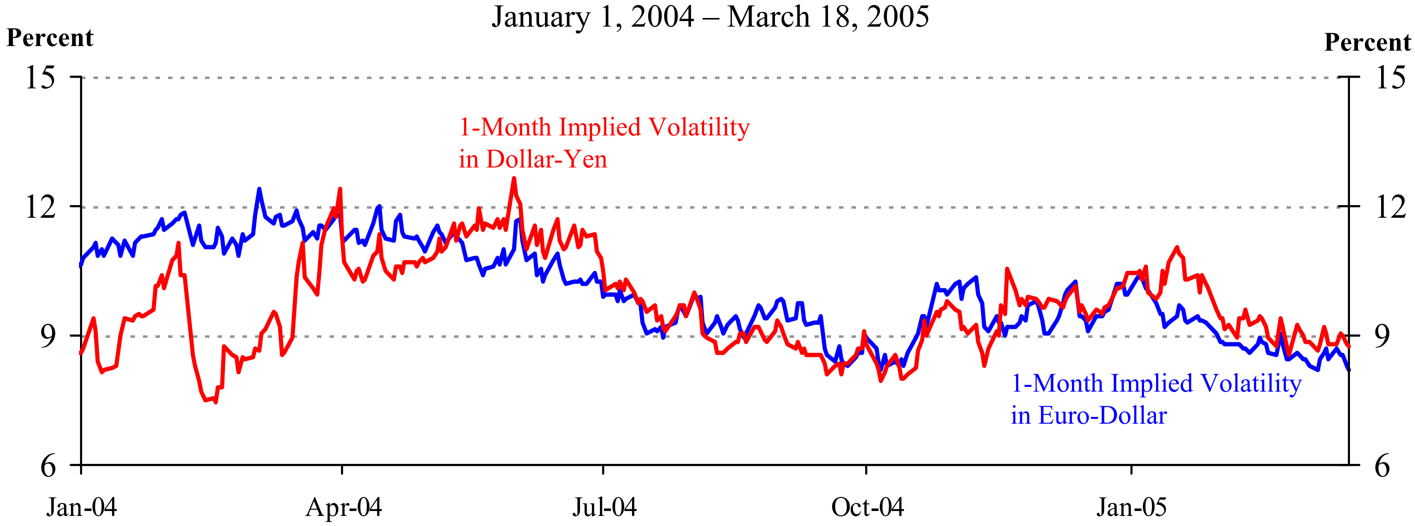
Changes in Select Emerging Market Equity Indices



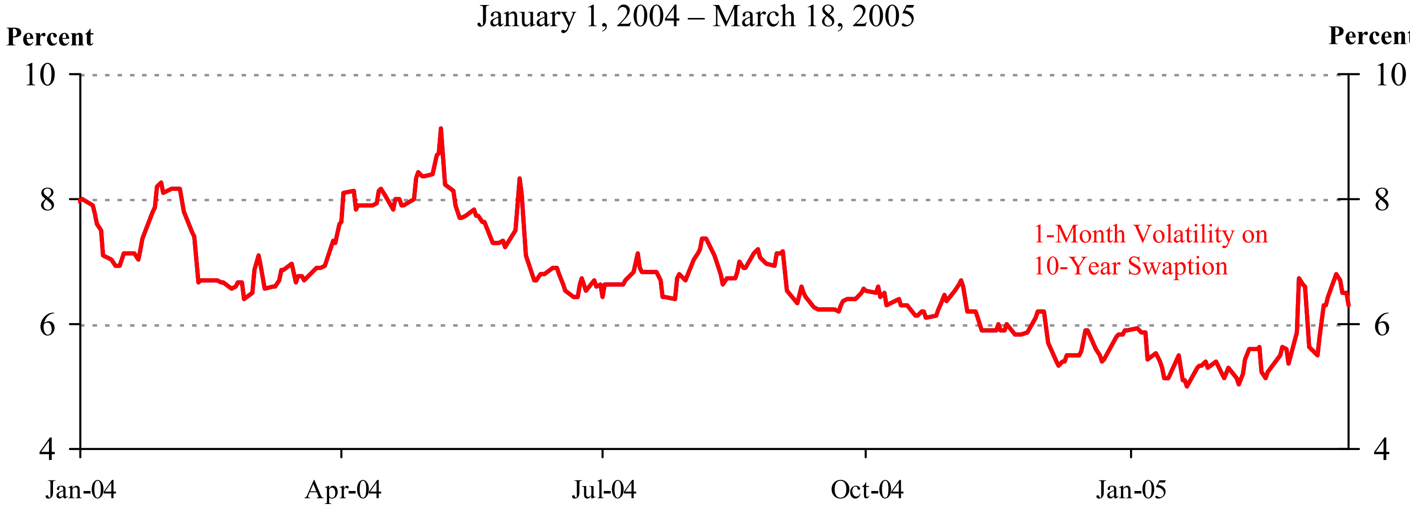
Implied Volatility on S&P500 Index
January 1, 2004 – March 18, 2004



Implied Volatility of Major Currency Pairs
January 1, 2004 – March 18, 2005



Implied Swaption Volatility
January 1, 2004 – March 18, 2005



Appendix 2: Materials used by Mr. Reinhart

Restricted Controlled (FR) Class I (FOMC)

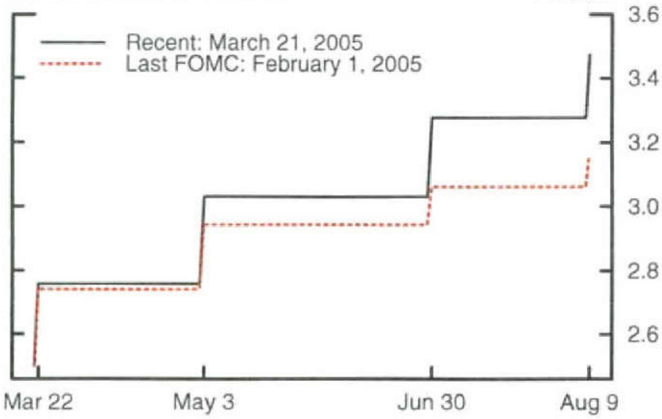
Material for

FOMC Briefing on Monetary Policy Alternatives

Vincent R. Reinhart
March 22, 2005

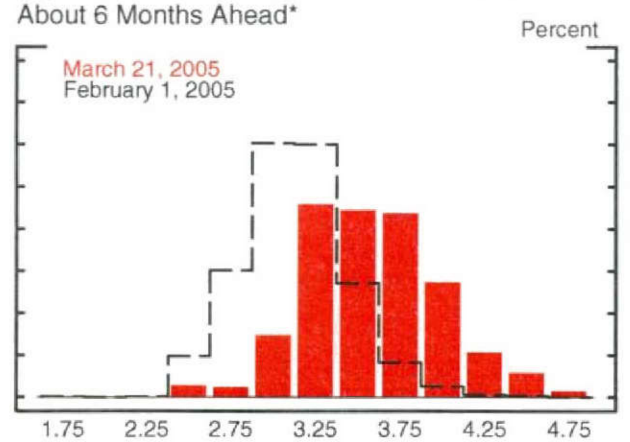
Exhibit 1
Recent Market Developments

Expected Federal Funds Rates Based on Federal Funds Futures*



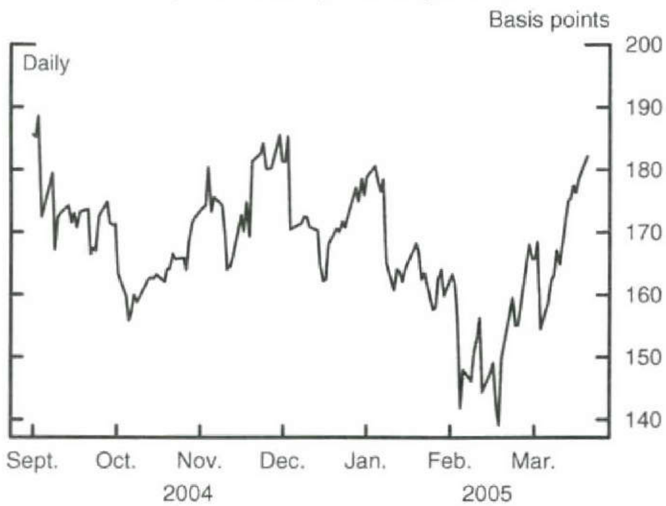
*Based on federal funds futures rates at the close of trading. Estimates assume a 1.0 basis point per month term premium and zero probability of intermeeting moves.

Implied Distribution of Federal Funds Rate About 6 Months Ahead*

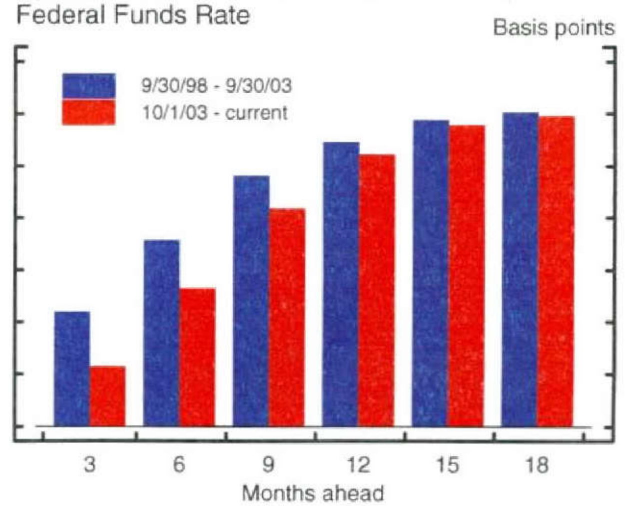


*Based on the distribution of the three-month eurodollar rate five months ahead (adjusted for a risk premium), as implied by options on eurodollar futures contracts.

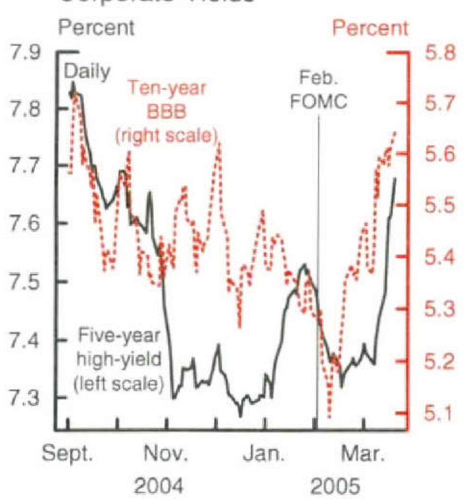
Eurodollar Implied Volatility 120 Days Ahead



Average Absolute Daily Change in the Expected Federal Funds Rate



Corporate Yields



Wilshire 5000

Major Currencies Index

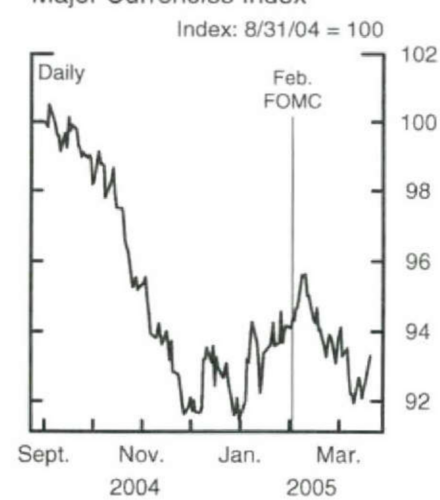
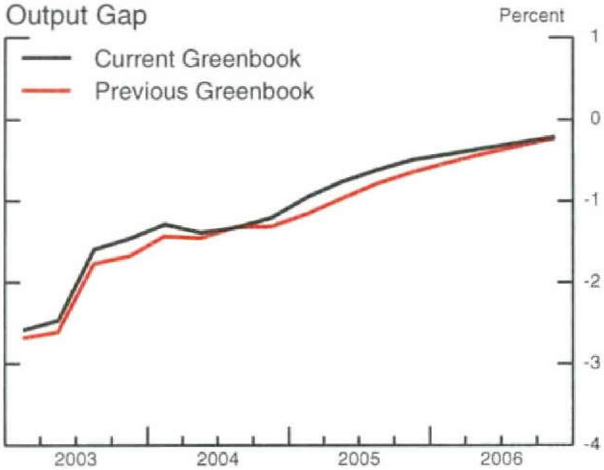
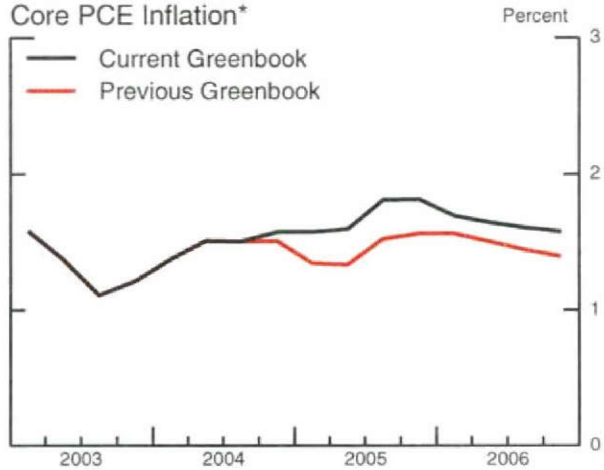


Exhibit 2
The Case for Tightening 25 Basis Points

Output Gap

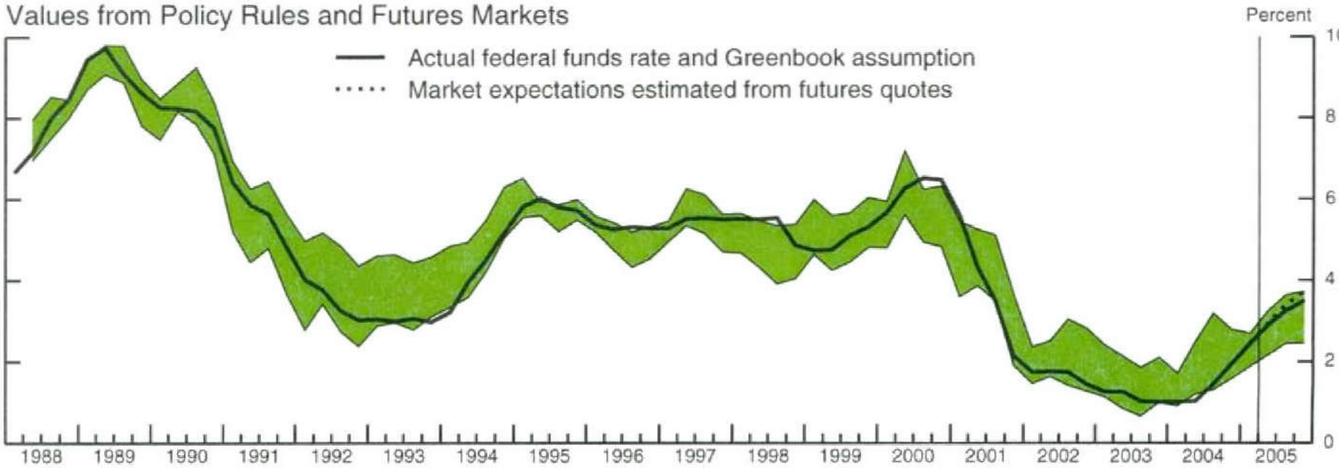


Core PCE Inflation*



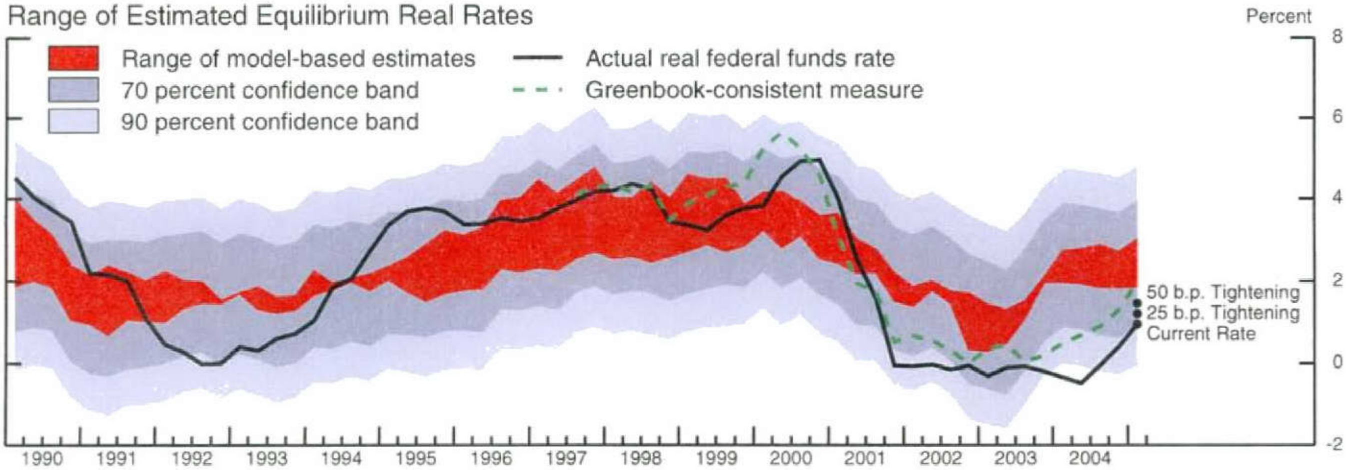
*Four-quarter percent change.

Values from Policy Rules and Futures Markets



An explanatory note is provided in Chart 6 of the Bluebook.

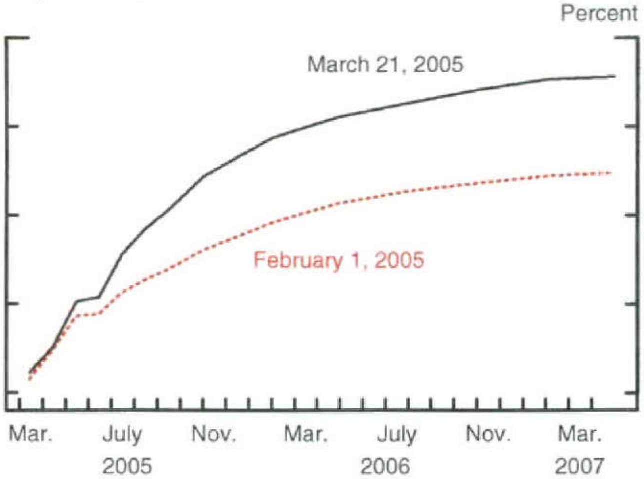
Range of Estimated Equilibrium Real Rates



An explanatory note is provided in Chart 5 of the Bluebook.

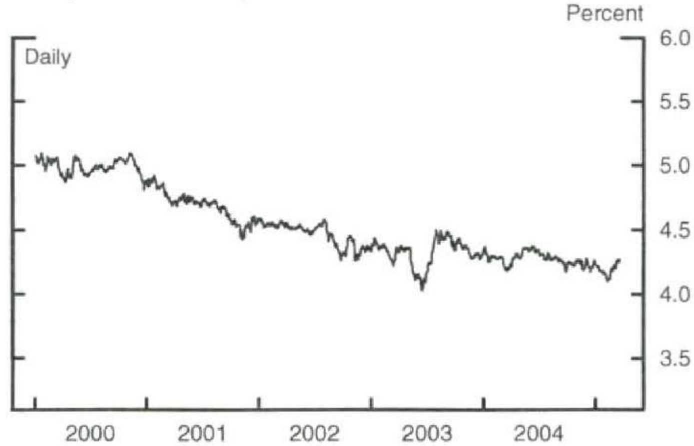
Exhibit 3
The Policy Outlook

Expected Federal Funds Rates*



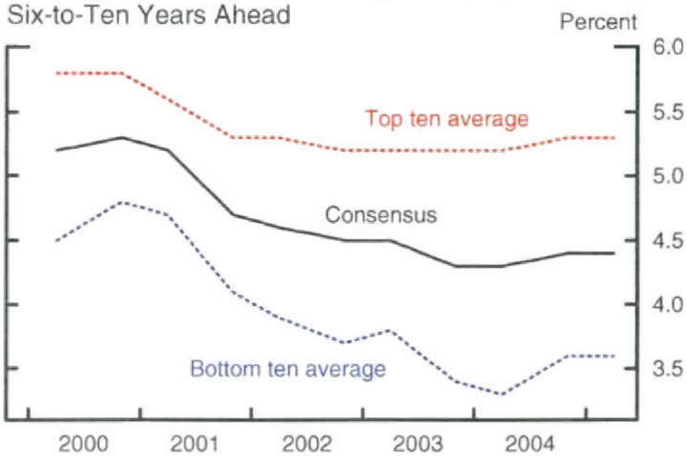
*Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

Ten-year-ahead Expected Short Rate*

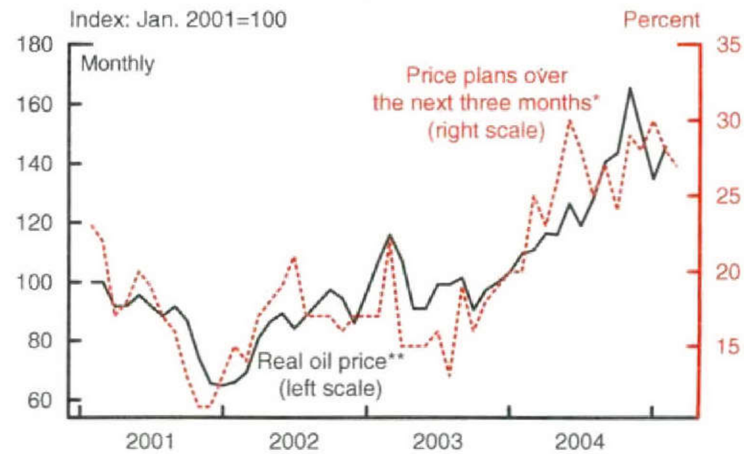


*Based on an estimated three-factor model of the term structure.

Blue Chip Three-month Treasury Bill Forecast, Six-to-Ten Years Ahead

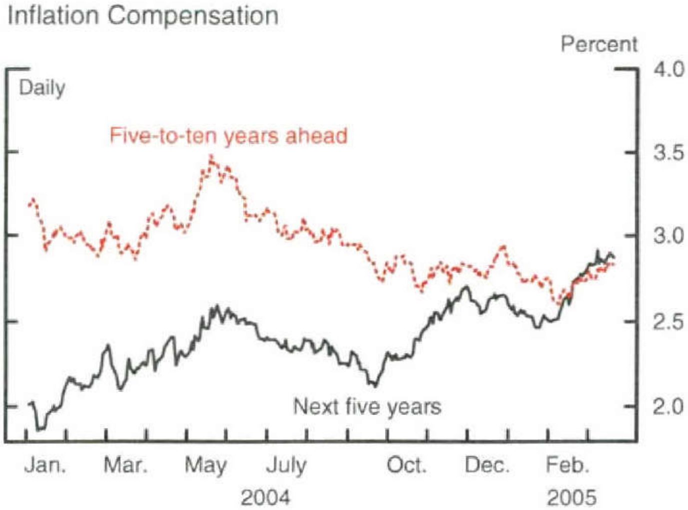


Oil Price and NFIB Survey Results

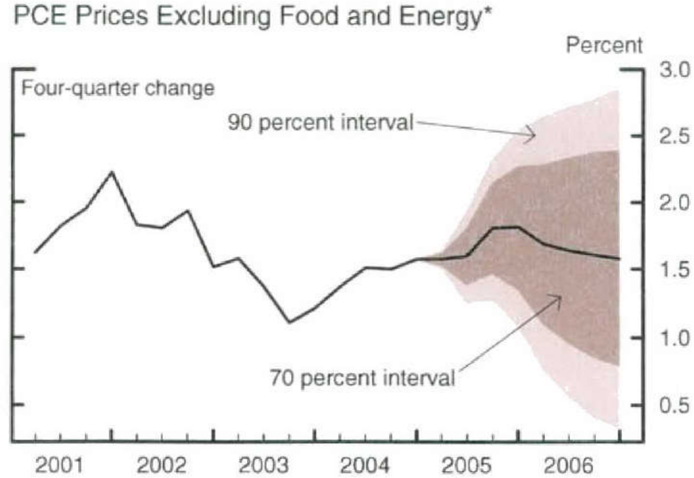


*Percentage of respondents that plan to raise average selling prices over the next three months less the percentage that plan to lower average selling prices.
**WTI spot price deflated by the CPI.

Inflation Compensation



PCE Prices Excluding Food and Energy*



*Confidence intervals based on FRB/US stochastic simulations.

February 2005 FOMC Statement

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-1/2 percent.

The Committee believes that, even after this action, **the stance of monetary policy remains accommodative** and, coupled with **robust underlying growth in productivity**, is providing ongoing support to economic activity. Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions continue to improve gradually. **Inflation and longer-term inflation expectations remain well contained**.

The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal. With underlying inflation expected to be relatively low, the Committee believes that **policy accommodation** can be removed at a pace that is likely to be **measured**. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Is policy still accommodative?

Is productivity growth still robust?

Is inflation well-contained and expected to be relatively low?

Are the risks still balanced?

Will the pace of firming remain 'measured'?

Table 1: Alternative Language for the March FOMC Announcement

	February FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-1/2 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to **2-3/4** percent. **This action brings the cumulative increase since June 2004 to 1-3/4 percentage points.**	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to **2-3/4** percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by **50** basis points to **3** percent.
Rationale	2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	The Committee believes that, ~~even~~ after this action, the stance of monetary policy remains **somewhat** accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	[no change]	[no change]
	3. Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions continue to improve gradually.	[no change]	Output **evidently continues to grow** ~~appears to continue to be growing~~ at a **solid** ~~moderate~~ pace despite the rise in energy prices, and labor market conditions continue to improve gradually.	Output ~~appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions continue to improve gradually.~~ **continues to grow at a pace sufficient to eliminate any remaining resource slack.**
	4. Inflation and longer-term inflation expectations remain well contained.	**Although month-to-month movements in inflation have been volatile of late, underlying** inflation and longer-term inflation expectations remain well contained.	~~Inflation and~~ **Though** longer-term inflation expectations remain well contained, **pressures on inflation have picked up** ~~**modestly**~~ **in recent months and pricing power is more evident. The rise in energy prices, however, has not notably fed through to** ~~**wages or**~~ **core consumer prices.**	**While** ~~Inflation and~~ longer-term inflation expectations remain ~~well~~ contained, **pressures on inflation have intensified in recent months.**
Assessment of Risk	5. The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal.	The Committee perceives ~~the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal~~ **that, if the current target for the federal funds rate were maintained for the next few quarters, it is more likely than not that output would grow at a pace faster than is sustainable and that inflation pressures would pick up.**	The Committee perceives **that, with appropriate policy action,** the upside and downside risks to the attainment of both sustainable growth and price stability ~~for the next few quarters to be~~ **should be kept** roughly equal.	The Committee perceives ~~the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal~~ **that, if the current target for the federal funds rate were maintained for the next few quarters, it is more likely than not that output would grow at a pace faster than is sustainable and that inflation pressures would pick up.**
	6. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	~~With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.~~ **However, the pace at which policy accommodation will be removed to contain those risks will depend on economic prospects.**	With underlying inflation expected to be **contained** ~~relatively low~~, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured~~;~~. **N** ~~N~~nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	~~With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.~~ **However, the pace at which policy accommodation will be removed to contain those risks will depend on economic prospects.**