GLOBAL MARKETS MONITOR

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Executive Summary

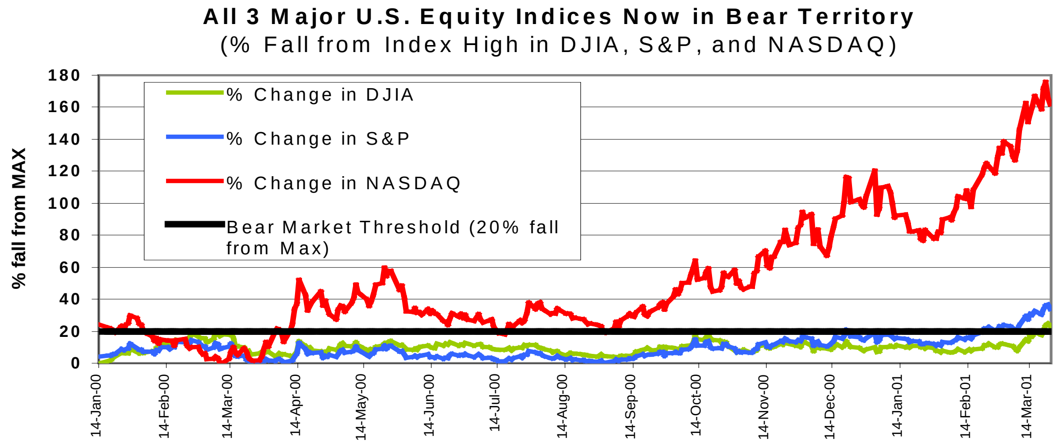
- **US: Fed cut interest rates as expected, but not by as much as markets would have liked. More swift action by the Fed (before the next FOMC meeting on May 15) could follow this week's half-point cut if the U.S. economy slows significantly in the weeks ahead. Data to watch closely are jobs-related (deterioration in U.S. unemployment, holding steady at 4.2 percent, would be worrisome).**
- **U.S. Energy Secretary speaks out on America's energy crisis. President Bush reverses pledge on carbon dioxide emissions -- good news for coal in an environment of high natural gas prices.**
- **Europe: A shift in the inflation diagnosis raises speculation that ECB will trim interest rates next week. We expect the ECB to hold Thursday but is likely to cut by at least 25 bp at its next meeting on April 11.**
- **UK: Minutes of MPC reveal a 7-2 vote to hold rates constant.**
- **Japan: By dropping rates as the chief policy target and injecting funds directly into the Japanese economy, the BOJ implicitly returns to the ZIRP to combat deflation and sluggish growth in hopes banks will increase lending and consumers will spend. Real estate values fall for a 10th consecutive year.**
- **Country Update – Argentina: Current political crisis weakens credibility in current administration. Argentina is put on negative credit watch. Domingo Cavallo, hard-nosed architect of currency board, returns to the scene. Will a devaluation help pull the country out of recession?**

Economic and Central Bank Monitor

North America

- **Fed Cuts 50bp on Spending and Consumption Concerns and Hints at an Inter-meeting Cut if Conditions Warrant:** As expected, the Fed trimmed the fed funds and discount rates by another 50 bp on Tuesday in response to a slowdown in consumption, which is being caused by large declines in financial wealth due to falling equity prices and higher energy prices, and persistent pressures on profit margins that are restraining investment spending. The third interest rate cut in three months was in response not only to soft domestic economic conditions, but also to external conditions, which are increasingly worrisome to the Fed. In its statement, the FOMC stated that excess productive capacity, spurred by inventory buildup, and the potential for weakness in global economic conditions suggest "substantial risks that demand and production could remain soft." If the economy continues to deteriorate rapidly in the coming weeks, the Fed left the door open for more cuts before May 15. The Fed always has the option to act between meetings, but Wednesday's FOMC statement firmly suggests that it will respond swiftly to more bad economic news. Don't expect the Fed to come to the stock market's rescue. If it moves before mid-May, the FOMC will do so out of greater concern about further steep declines in consumer confidence which strangle consumption, than the sharp correction in equity values. Also, the Fed would cut rates to help boost corporate profits by reducing borrowing costs, which should in turn lift equity prices.
- ***Currencies***: The dollar-Yen traded in narrow ranges this week, with the week's closing high at Y123.52 on Thursday. The dollar strengthened against the euro, closing at 88.99 U.S. cents from 89.99 on Monday. The Canadian dollar closed moderately higher against the greenback closing at C$1.5646 although it hit a low on Wednesday of C$1.5748 as the manufacturing slowdown in Canada deepens.

- **But, the Markets Want More Relief – The Story of the 3 Bears:** Disappointed investors sent the S&P, Dow Industrials and the tech-laden NASDAQ down further this week following Tuesday's Fed decision, as many wanted a more aggressive 75 bp cut to help pull corporate profits out of the doldrums amid a persistent rash of layoff announcements, missed profit targets and weak sales forecasts. A 75-bp cut would have been the steepest one-time cut by the Fed since it began targeting the Fed Funds rate. The markets reacted sharply and swiftly, pulling the Dow Industrials into bear territory for the first time. If a bear market is defined as a 20 percent decline from the bull market high, all three major U.S. equity indices have now entered bear territory (*see Chart below*), with the Nasdaq the oldest bear. Goldilocks is getting no relief from her 401(k) and mutual fund statements.



Index –	**Dow Jones**	**S&P 500**	**NASDAQ**
High close	11722.98	1527.46	5048.62
DATE	1/14/00	3/23/00	3/10/00

North America *(continued)*

- **U.S. Energy Secretary Speaks On Economic Impact of America's Current Energy Crisis:** Emphasizing the severity of the current energy crisis and calling for bipartisan support for a new, comprehensive national energy policy, U.S. Energy Secretary Abraham acknowledged the threats to U.S. economic prosperity by the current energy crunch. The U.S. faces the most serious energy shortage since the days of the oil embargoes and gas lines of the 1970s. Soaring fuel prices between 1999 and 2000 cost the U.S. economy more than $115 billion, reducing GDP by 1.0 percent. Californians lost an estimated $2.3 billion in wages, sales and productivity this past January. Blackouts and production cuts plague California, while other energy-strapped states also suffer. Farmers' income will drop 20 percent in the next two years due to higher energy costs. The gap between supply and demand for energy is destined to rise.
- **Good News for Coal:** President Bush reversed his campaign promise to restrict carbon dioxide emissions because it would raise energy costs by shifting demand from coal to the environmentally-friendly but more costly natural gas. The president cited an Energy Department study that shows restrictions on carbon dioxide emissions would force U.S. energy producers to shift to natural gas, whose prices have spiked. In the announcement, the President insisted that the government should not impose on power plants mandatory emissions reductions for carbon dioxide. Environment groups and congressional members who support a reduction in greenhouse gas emissions criticized the move. The president's support for a comprehensive and *balanced* national energy policy suggests that the high cost to the U.S. economy of spikes in energy prices will be factored into policy.

Europe

- **U.K.'s MPC Votes 7-2 To Keep Rates On Hold on Strong Demand and Confidence:** Two of the seven MPC members wanted to cut the repo rate by 25 basis points at the last meeting, but for most members the data did not support a further cut. The U.S. slowdown has not yet had any impact on business and consumer confidence in the U.K. British exporters appeared to see improved demand from some regions that broadly offset weakness in U.S. demand. Consumption is still growing strongly. Investment growth still has a positive outlook. Earnings growth showed modest signs of strengthening. The most striking feature of the U.K. economy, according to the MPC, was the strength of domestic demand and confidence, despite the world outlook.

- **Will the ECB Cut Interest Rates on March 29?** Inflation has been a persistent concern of the ECB, which has kept monetary policy tight, but comments from a number of members of the governing council in the past few days suggest that rates may be cut next week. Jean-Claude Trichet said, while the ECB was "very, very worried" about inflation a month ago, the bank has changed its diagnosis, ECB Chief Economist Issing said that "no inflationary pressures are to be expected from a cooling global economy," and Noyer said the risks related to price stability were more balanced now. However, ECB President Duisenberg is still warning of the upside risks to inflation. German consumer prices rose by only 0.1 percent in March (2.5 percent year-over-year), less than February's rise of 0.6 percent. However, it is not clear yet that inflation is under control in Europe's largest economy as 2.5 percent inflation is still a half-point higher than the ECB target ceiling. Recall that euro-area harmonized inflation jumped by 2.6 percent in February after a 2.4 percent rise in January. And, Germany experienced two consecutive months of rising prices in January and February. Moreover, the mad-cow and foot-and-mouth diseases are likely to push food prices up in coming months. Thus, it is too soon to call inflation dormant in Europe. Other facts the ECB faces heading into the next week's meeting include a precipitous fall in Germany's closely watched Ifo business sentiment index in February (lowest reading since July 1999) and a fall in French industrial output in January and consumer spending in February as well as a slowing in wage growth in February. **We expect the ECB to hold at this week's meeting, but may trim by 25 bp at its next meeting on April 11.**

Asia/Pacific

- **Will it be enough? Japan Implicitly Returns to a Zero-Interest Rate Policy (ZIRP) Through Quantitative Easing:** The BOJ moved this week to combat deflation (a disincentive to spend) and boost economic growth by injecting liquidity directly into the ailing Japanese economy. Zero short-term interest rates have failed to revive bank lending because of the weak bank balance sheets, causing a decade of lackluster domestic demand in Japan. Rather than targeting the interest rate directly, the BOJ will buy bonds (either in the market or directly from banks) which injects cash directly into an economy that has been failed by a dysfunctional banking system. Banks, who hold lots of government paper, have been prevented from lending to the corporate sector due to the bank's weak financial condition brought on by non-performing loans, for which the corporate sector is largely responsible. BOJ governor stated that "even after interest rates hit zero, we can provide more funds (to the money market) if needed," which means buying more JGBs. The key June 10-year JGB futures contract rose from 140.03 to 140.25 on the news the BOJ implicitly returned to the ZIRP. The central bank said that these measures would be in place until the consumer price index is stable at zero percent or registers an increase year-on-year. Japanese real estate values fell for a record 10^{th} year last year, according to an annual survey by the Ministry of Land, Infrastructure and Transport. The goal of the shift in monetary policy is to halt deflation, which has caused a vicious circle of falling prices and domestic demand. The yen hit a two-year low this week, and closed at Y122.76 Friday. The Tankan survey comes out on April 2^{nd}.

Country Update: Argentina

- **Argentina's Ratings Placed on Watch Negative Following Heightened Political Risk:** S&P put Argentina's ratings on CreditWatch on March 19 reflecting risks to the government's economic program stemming from the current political crisis that erupted last week. The crisis occurred after several officials of the ruling coalition resigned after (now former) Economy Minister Murphy announced steep fiscal restraint measures. S&P stated that a broader-based administration (such as the national government sought by President De La Rúa) could rebuild domestic and international support if it swiftly agrees to, and can implement effectively, a coherent program that receives support from Congress. Forging a new consensus will require strong political leadership and willingness of political parties to set aside deeply entrenched political and ideological differences. S&P expects to resolve the CreditWatch listing in the next few weeks. Yet, despite Cavallo's credibility, if the government doesn't agree to reduce the deficit, bolster the currency board regime, and safeguard the IMF program, ratings could be lowered.

- **What is a currency board and would a devaluation help Argentina?** In a currency board foreign exchange rate regime, the domestic money supply adjusts automatically to changes in foreign exchange reserves. The Board has a monopoly on creating domestic money, but this would have to be backed 100 percent by foreign exchange or gold to give full credibility. For each Argentine peso there is one dollar of foreign exchange reserves, which guarantees a one-to-one exchange of pesos to dollars. Because Argentine authorities can not print dollars, they can not actively manage the money supply. Hence, control over domestic interest rates was surrendered to the U.S. Federal Reserve when the currency board was enacted in 1991. When the Fed tightens monetary policy, interest rates rise in Argentina automatically. This can become painful, for example in 1999, when the U.S economy was overheating the Fed tightened interest rates, however, Argentina was already in recession due to the devaluation of its largest trading partner, Brazil. In addition to tight U.S. monetary policy through January of this year, Argentina also pays a higher emerging market premium for debt every time a crisis occurs. This leaves Argentina exposed to external factors beyond its control. Argentina has been rocked by many other external factors over the past few years: the emerging market financial crisis of 1997/8, both the Asian and Russian crises, the Brazilian devaluation in 1999, an appreciating U.S. dollar since 1996, all causing a deterioration in Argentina's terms of trade (price of exports/price of imports). In combination, these events have delivered a major loss of competitiveness to Argentina. Despite the advantages of a floating exchange rate for external competitiveness, Argentina suffers from credit risk, and must build fiscal discipline while creating a unified government to re-establish confidence of foreign creditors and investors alike.
- **Political Crisis Weakens Credibility of Current Administration, But Cavallo is Back:** In another abrupt shake-up amongst the leadership ranks of the Argentine government, Domingo Cavallo returned to the post of economy minister, replacing Ricardo López Murphy who spent only two weeks in office. Murphy's proposed fiscal adjustment programs targeted toward the public sector struck a painful cord amongst the ruling elite and lead to several resignations. Cavallo, who proposes fiscal adjustments focused on the private sector, is the architect of Argentina's Convertibility plan, which passed into law the currency board. Domingo Cavallo presided over the Argentine economy in the early 1990s marked by strong economic growth, a stable currency, tighter control over inflation and increased foreign investment, earning him confidence at home, although it was at a time of political consensus to address hyperinflation. Without a unified government and a Congress supportive of fiscal measures to lift the economy out of recession, investor confidence at home and abroad in the country's ability to pay down debt and raise government revenue through growth-oriented fiscal policies remains shaken. Cavallo is a strong political figure who has asked Congress for expanded executive powers to implement his mandate, most likely to force through strict fiscal policies quickly without political interruption.

Credit Rating Activity

- **Korea's Baa2 Rating and Stable Outlook from Moody's Affirmed in Annual Review:** The significant reduction in Korea's vulnerability to external shocks and a policy commitment to maintain a strong external liquidity position supports the stable outlook for Korea's Baa2 foreign currency country ceiling rating, according to Moody's. The outlook is stable despite underlying weakness in the financial system and the embryonic state of corporate sector restructuring, says the author of Moody's Global Credit Research report on Korea. The largest credit risk is the partial restructuring and underlying fragility of the financial system and corporate sector.

G-7+ Central Bank Monitor

Country	Official Interest Rate	Current (%)	Change from prev. bias	Last Change	Next MPC Mtg.
The Americas					
United States	Federal funds rate	5.00	19 Dec 00 (-150 bps)	20 Mar 01 (-50 bps)	15 May 2001
Canada	Overnight rate	5.00	23 Jan 01 (-75 bps)	6 Mar 01 (-50 bps)	17 Apr 2001
Europe					
ECB	ECB rate	4.75	4 Nov 99 (+225 bps)	5 Oct 00 (+25 bps)	29 Mar 2001
U.K.	Base rate	5.75	11 Jan 01 (-25 bps)	8 Feb 01 (-25 bps)	4 - 5 Apr 2001
Asia/Pacific					
Australia	RBA Cash rate	5.50	6 Feb 01 (-75 bps)	7 Mar 01 (-25 bps)	3 Apr 2001
New Zealand	Official cash rate	6.25	13 Mar 01 (-25 bps)	13 Mar 01 (-25 bps)	15 May 2001
Japan	Overnight call rate	0.00	28 Feb 01 (-25 bps)	19 Mar 01 (-25 bps)	13 Apr 2001

Economic Calendar – March 26 to March 30, 2001					**(all times are CST)**
Country	**Mon. March 26**	**Tues. March 27**	**Wed. March 28**	**Thurs. March 29**	**Fri. March 30**
The Americas					
U.S.	New Home Sales (Feb) Existing Home Sales (Feb) Philadelphia Fed President Santomero addresses Monetary Policy in New York	Redbook Durable Goods (Feb) Consumer Confidence (Mar) Greenspan speak about Monetary Policy at NABE conference in Wash	Mortgage Applications (Mar23) Housing Completions (Feb Fed Gov. Meyer to give lecture in St. Louis	Jobless Claims (Mar24) Real GDP (Q4-F) Corp. Profits (Q4-P) Help-Wanted Index (Q4) Farm Prices Cleveland Fed President Jordan to speak in Cleveland	Personal Income (Feb) APICS Survey (Mar) Chicago PMI (Mar) U of Michigan Confidence (Mar-F) Personal Consumption (Feb) Spending (Feb)
Canada				PPI (Feb) Avg. Earnings (Jan) Industrial Product Price (Feb) Raw Material Price Index (Feb)	GDP (Jan)
Europe					
ECB	**Euroland:** Trade Balance (Jan-P) **Italy:** Trade Balance (Jan)	**France:** Housing Indicators (Feb) **Italy:** Labor Force Survey (Jan)	**Euroland:** Balance of Payments (Jan) **Italy:** Retail Sales (Jan)	**France:** INSEE Industrial Survey (Mar) **Italy:** PPI (Feb) ECB Meeting-No Press Conference	**Euroland:** Labor Costs (Q4) **France:** Unemployment Rate (Feb) PPI (Feb) **Italy:** Contractual Wages (Jan/Feb) CPI (Mar-P)
U.K.	Current Account Balance (Q4) GDP (Q4-R)			Personal Borrowing (Feb) Consumer Credit (Feb) Mortgage Borrowing and Commitments (Feb) Money Supply (Feb-F)	Nationwide House Prices (Feb) GFK Consumer Confidence (Mar)
Asia-Pacific					
Japan		Large-Scale Retail Store Sales (Feb) Crude Oil Imports (Feb)		Industrial Production (Feb-P) Construction Orders Total (Feb)	Tokyo CPI (Mar) Household Survey (Feb) UnemployRate (Feb) CPI (Feb)
Australia			Job Vacancies (Feb)	New Motor Vehicle Registration (Feb) Building Approvals (Feb)	Trade Balance (Feb)
NZ	Trade Balance (Feb) Overseas Trade Exp and Imports (Feb)				GDP (Q4)
Singapore	Industrial Production (Feb) CPI (Feb)				Money Supply (Feb)