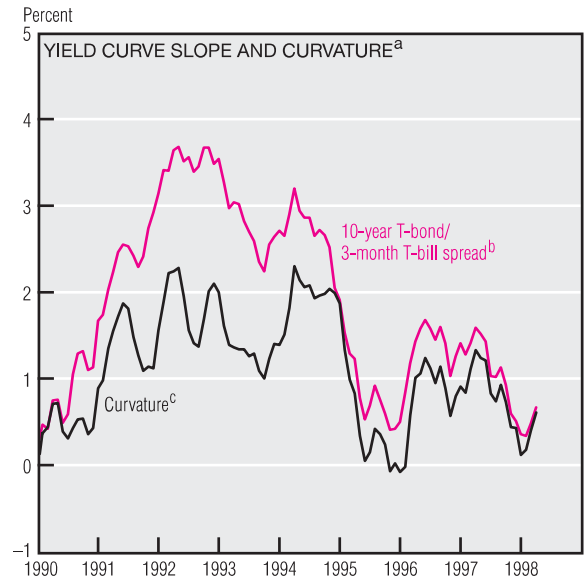
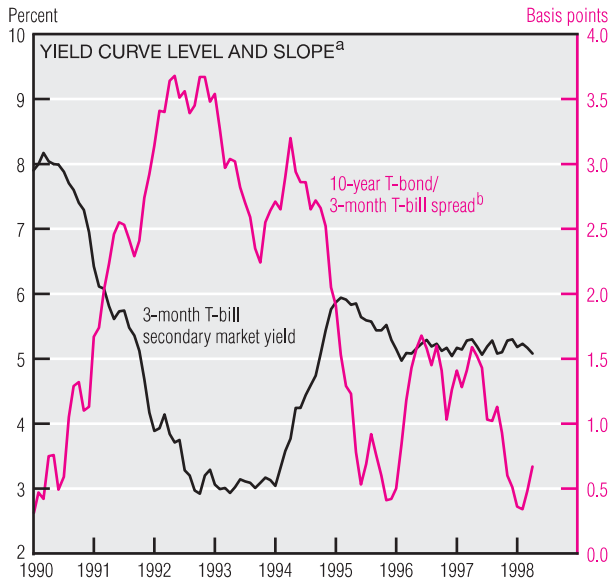
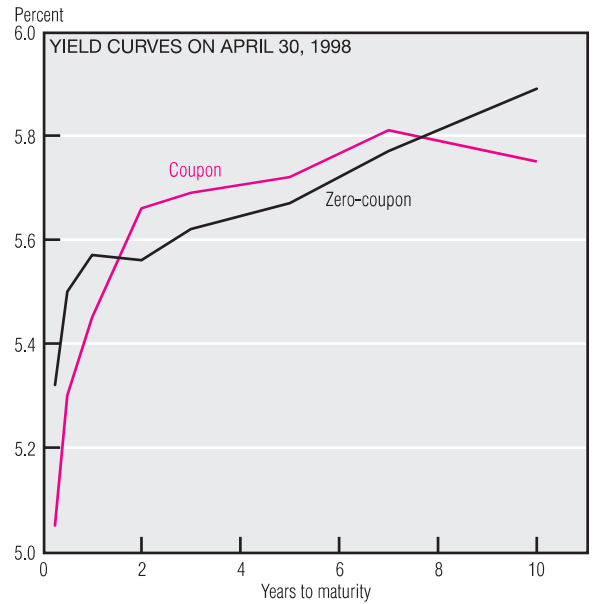
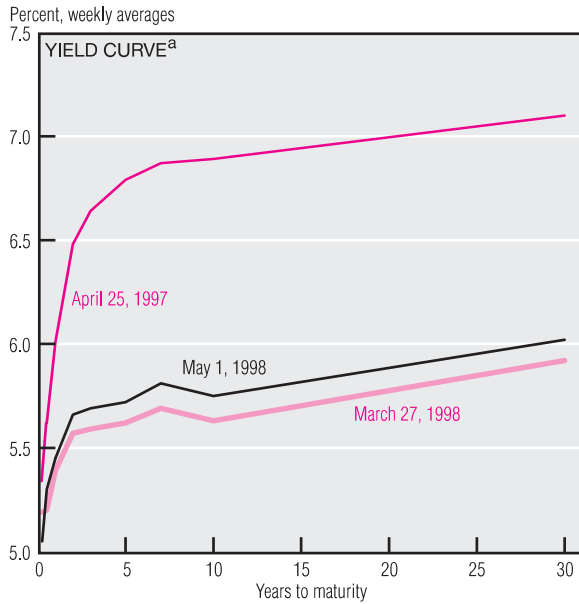


Interest Rates



a. All instruments are constant-maturity series.

b. Constant-maturity 10-year Treasury bond yield minus the secondary market 3-month Treasury bill yield.

c. Curvature equals the 5-year Treasury note yield minus the secondary market 3-month Treasury bill yield, less the 10-year Treasury bond yield minus the 5-year Treasury note yield.

SOURCE: Board of Governors of the Federal Reserve System.

The yield curve has shifted only slightly in the last month. At the short end, the 3-month rate has moved down just 14 basis points, while at the long end, the 30-year rate has increased only 10 basis points. Overall rates and the yield curve slope (or steepness) remain below levels seen at this time last year. The often-watched 3-year, 3-month spread stands at 64 basis points, while the 10-year, 3-month spread is at 70 basis points, below both their historical averages and last year's 130 and 155 basis-point spreads.

The yields on zero-coupon bonds seem to have diverged from those on coupon bonds even more than usual in the past month: With a flatter yield curve, liquidity differences between the markets may become more apparent.

A natural and common way to compare yield curves is to look at their level, their slope, and their curvature. Level and slope moved in opposite directions over most of the 1990s. As short rates rose or fell, long rates changed less than proportionately. Relative stability in the yield

curve's level since 1996, however, has not created equal stability in its slope. Most of the recent reduction in slope has occurred at the long end of the curve.

Slope and curvature show a closer connection, with both measures declining as the yield curve has flattened since early 1997. This may indicate that investors expect the stable interest-rate environment to continue as medium and long rates converge, or that they perceive less risk in holding long- and medium-term bonds.