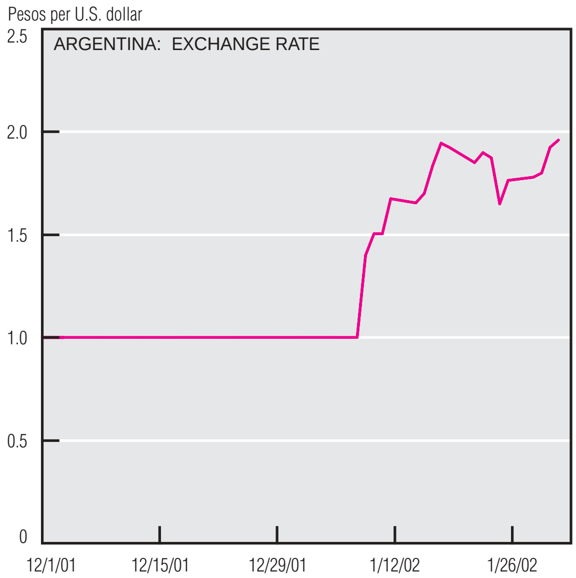
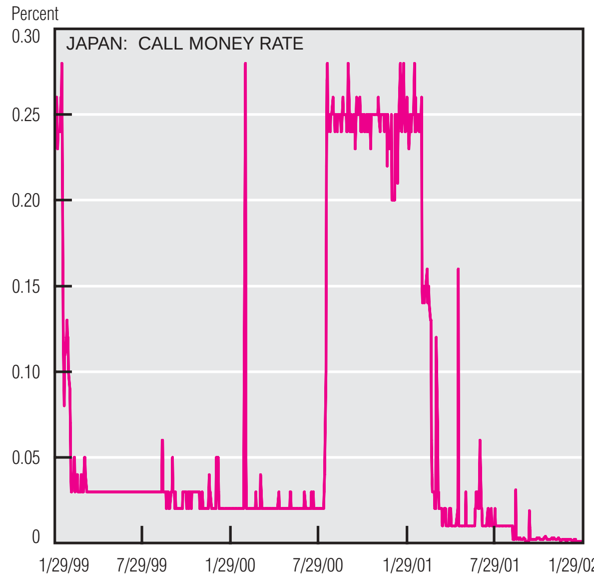
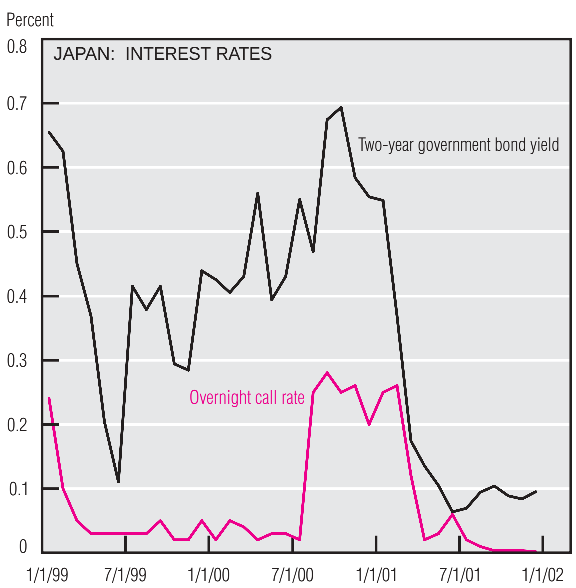
Foreign Central Banks







SOURCES: Bank of Japan; Underwriters Association of Japan; Association of Call and Discount Companies (Nihon Keizai Shinbun); Haver Analytics; and Bloomberg Financial Information Services.

In January, the Argentine government abandoned the currency board arrangement that had maintained one-to-one parity between the peso and the U.S. dollar for about a decade. In its place is a dual exchange rate system with a fixed rate of 1.4 pesos per dollar for international transactions and a floating rate for all other transactions. Trading typically has been within the range of 1.5 to 2.0.

The Governor of the Bank of Japan recently called attention to the visible results of last year's progressively easier monetary policy. Early on, the Bank reduced its target for the overnight call rate from 25 basis points (bp) to 15 bp and then effectively to zero as it abandoned interest rate targeting in March. Since then, it has targeted a quantity of its current account balance liabilities to banks and money market institutions. As this quantitative target was increased, the overnight rate declined to less than 1 bp as banks built up very substantial holdings of excess reserves. Indeed, starting in September, the Bank of Japan began releasing overnight call rate data in ticks of 0.001%, revised from the previous 0.01%, in accordance with a change in market convention.

Also in March, the Bank committed itself to maintaining its policy of quantitative easing until inflation continuously registered zero or above. Apparently, the resulting expectations of continued low overnight rates brought the two-year interest rate down to less than 10 bp and compressed its spread above the overnight rate to an unusually low level. Initially, the March changes in policy were associated with stock prices that outperformed the U.S. More recently, however, U.S. equity markets have regained the lead.