

December 11, 2007



U.S. FEDERAL RESERVE

The Fed cuts its rate again: More to come in 2008

ACCORDING TO THE U.S. FEDERAL RESERVE (Fed)

- The target interest rate for federal funds goes from 4.50% to 4.25%. The vote was not unanimous (9 to 1 – The Boston Fed's Eric S. Rosengren was in favour of a 50 point cut).
- The discount rate also drops 25 basis points, from 5.00% to 4.75%.
- Economic growth is slowing, reflecting the intensification of the housing correction and some softening in consumer and business spending.
- Strains in financial markets have worsened in recent weeks.
- The statistics on core inflation have improved this year. However, elevated energy and commodity prices could put upward pressure on inflation.

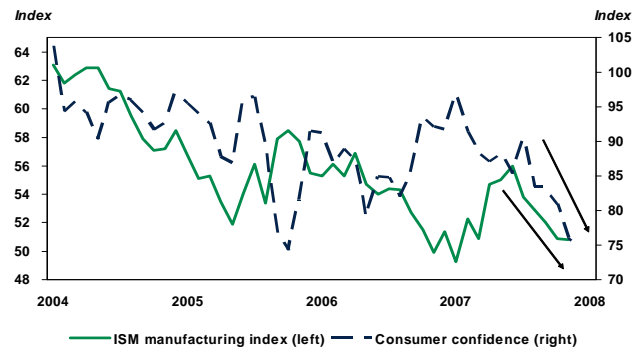
COMMENTS

The new wave of uncertainties that has destabilized financial markets since November and the release of disappointing economic statistics convinced the members of the monetary policy committee (FOMC) to proceed with another 25 basis point cut to key rates. What's more, this time, they did not attempt to close the door on further cuts, an intention that was clearer at the previous meeting. Monetary easing should thus go beyond the 100 basis points in cuts made since September.

However, it cannot be said that Fed leaders are at ease with the inflation situation. Energy and commodity prices are still a cause for concern. Yet, as at previous meetings, they stress the solid performance by core inflation. The Beige Book that prepared for today's meeting also noted that, except for energy and food, prices were stable or even declining.

Ben Bernanke and his colleagues are particularly concerned about the situation in the financial markets. The statement notes that "Recent developments, including the deterioration in financial market conditions, have increased the uncertainty

The confidence of economic agents is ebbing



Sources: Institute for Supply Management, University of Michigan and Desjardins, Economic Studies

surrounding the outlook for economic growth and inflation.” This refers to the risks stemming from tightening credit conditions and a drop in the confidence of economic agents (consumers, entrepreneurs and investors). Given that these risks are tilted to the downside, we can conclude that the Fed's bias is now oriented toward further key rate cuts.

Implications: The problems in the financial markets and evolution of the indicators could take economic growth and inflation below the Fed's expectations. The door is thus now open for ongoing monetary easing over the next few months.

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**EXCERPT FROM THE U.S. FEDERAL RESERVE PRESS RELEASE
DECEMBER 11, 2007**


The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 4-1/4 percent.

Incoming information suggests that economic growth is slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending. Moreover, strains in financial markets have increased in recent weeks. Today's action, combined with the policy actions taken earlier, should help promote moderate growth over time.

Readings on core inflation have improved modestly this year, but elevated energy and commodity prices, among other factors, may put upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

Recent developments, including the deterioration in financial market conditions, have increased the uncertainty surrounding the outlook for economic growth and inflation. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

**Table 1
Schedule and key rates**

| Date | Central Bank | Decision | Rate |
|-----------------------|-----------------------------|----------|-------|
| September 2007 | | | |
| 21 | Bank of Norway | +25 b.p. | 5.00 |
| October 2007 | | | |
| 2 | Reserve Bank of Australia | s.q. | 6.50 |
| 4 | European Central Bank | s.q. | 4.00 |
| 4 | Bank of England | s.q. | 5.75 |
| 11 | Bank of Japan | s.q. | 0.50 |
| 16 | Bank of Canada | s.q. | 4.50 |
| 17 | Bank of Brazil | s.q. | 11.25 |
| 24 | Reserve Bank of New Zealand | s.q. | 8.25 |
| 30 | Bank of Mexico | +25 b.p. | 7.50 |
| 30 | Bank of Sweden | +25 b.p. | 4.00 |
| 31 | Bank of Japan | s.q. | 0.50 |
| 30 | Bank of Norway | s.q. | 5.00 |
| 31 | U.S. Federal Reserve | -25 b.p. | 4.50 |
| November 2007 | | | |
| 6 | Reserve Bank of Australia | +25 b.p. | 6.75 |
| 8 | European Central Bank | s.q. | 4.00 |
| 8 | Bank of England | s.q. | 5.75 |
| 8 | Bank of Japan | s.q. | 0.50 |
| 23 | Bank of Mexico | s.q. | 7.50 |
| December 2007 | | | |
| 4 | Reserve Bank of Australia | s.q. | 6.75 |
| 4 | Bank of Canada | -25 b.p. | 4.25 |
| 5 | Reserve Bank of New Zealand | s.q. | 8.25 |
| 5 | Bank of Brazil | s.q. | 11.25 |
| 6 | European Central Bank | s.q. | 4.00 |
| 6 | Bank of England | -25 b.p. | 5.50 |
| 7 | Bank of Mexico | s.q. | 7.50 |
| 11 | U.S. Federal Reserve | -25 b.p. | 4.25 |

s.q.: status quo; b.p. : basis points
Source: Desjardins, Economic Studies

**Table 2
Coming soon**

| Date | Central Bank |
|----------------------|-----------------------------|
| December 2007 | |
| 12 | Bank of Norway |
| 13 | Swiss National Bank |
| 18 | Bank of Sweden |
| 19 - 20 | Bank of Japan |
| January 2008 | |
| 9 - 10 | Bank of England |
| 10 | European Central Bank |
| 18 | Bank of Mexico |
| 21 - 22 | Bank of Japan |
| 22 | Bank of Canada |
| 23 | Bank of Norway |
| 24 | Reserve Bank of New Zealand |
| 29 - 30 | U.S. Federal Reserve |
| February 2008 | |
| 5 | Reserve Bank of Australia |
| 6 - 7 | Bank of England |
| 7 | European Central Bank |
| 12 | Bank of Sweden |
| 14 - 15 | Bank of Japan |
| 15 | Bank of Mexico |
| March 2008 | |
| 4 | Reserve Bank of Australia |
| 4 | Bank of Canada |
| 5 - 6 | Bank of England |
| 6 | European Central Bank |
| 6 | Reserve Bank of New Zealand |
| 6 - 7 | Bank of Japan |
| 13 | Bank of Norway |
| 13 | Swiss National Bank |
| 14 | Bank of Mexico |

Source: Desjardins, Economic Studies