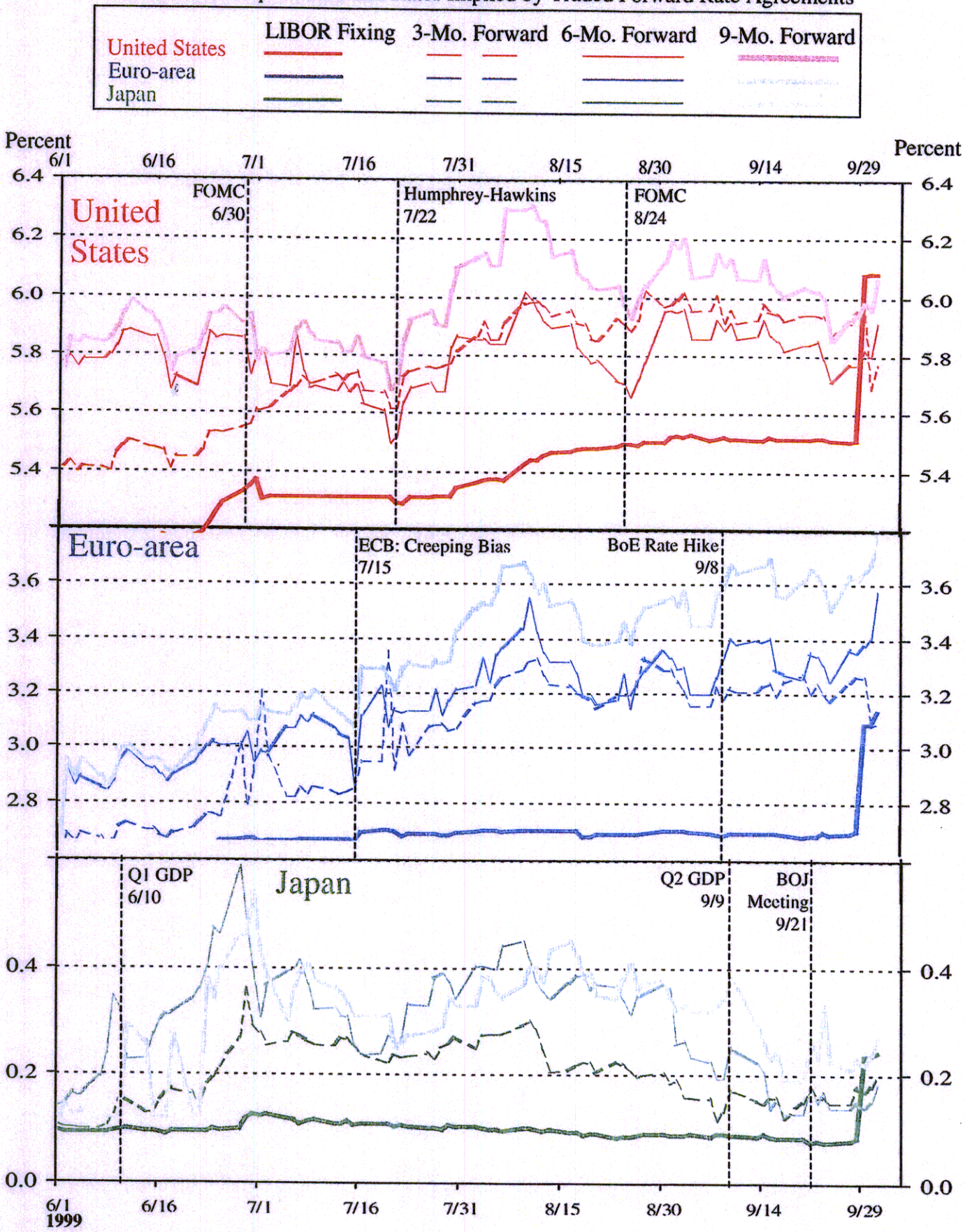
APPENDIX

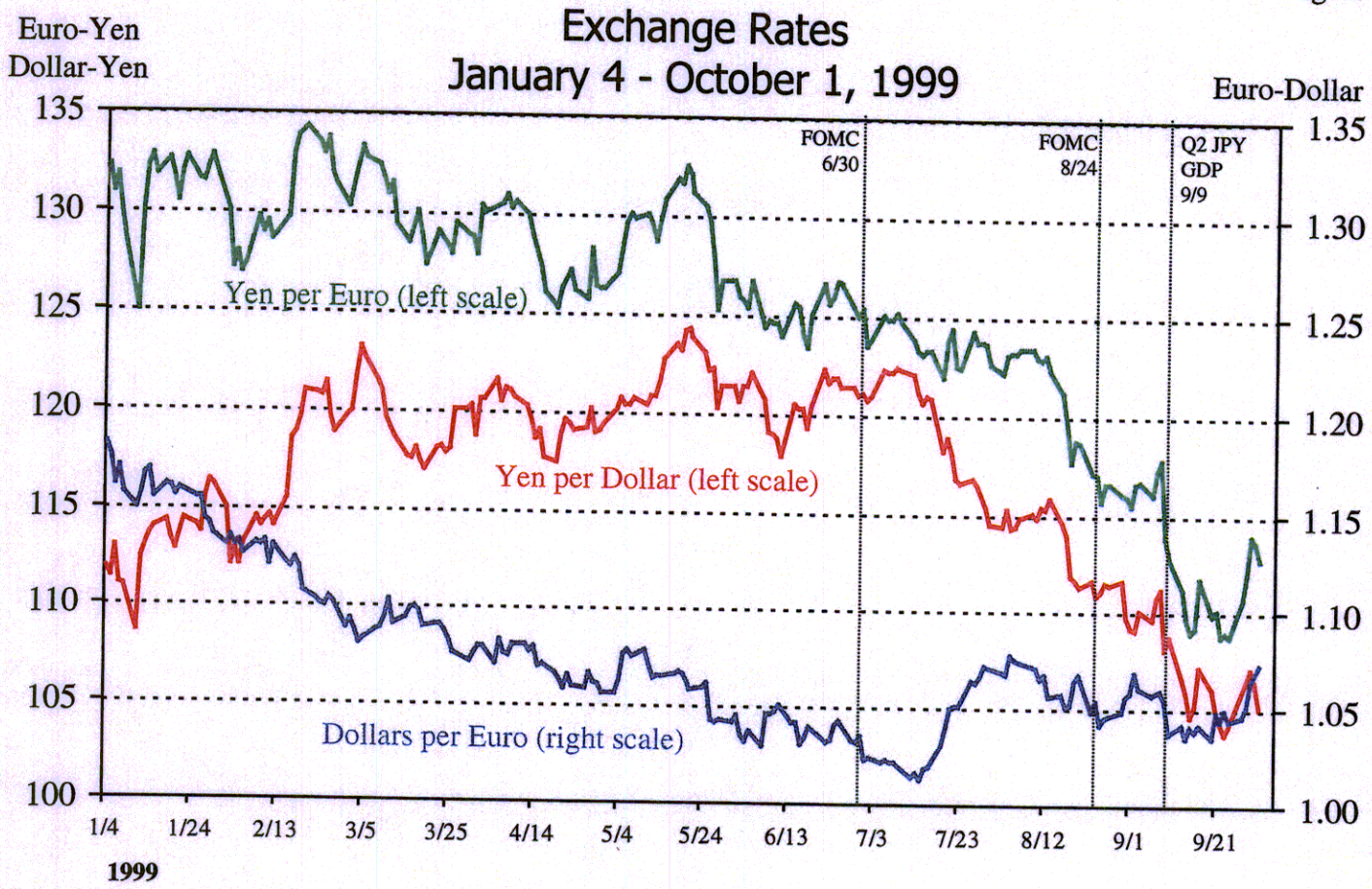
Material used by Mr. Fisher in his presentation

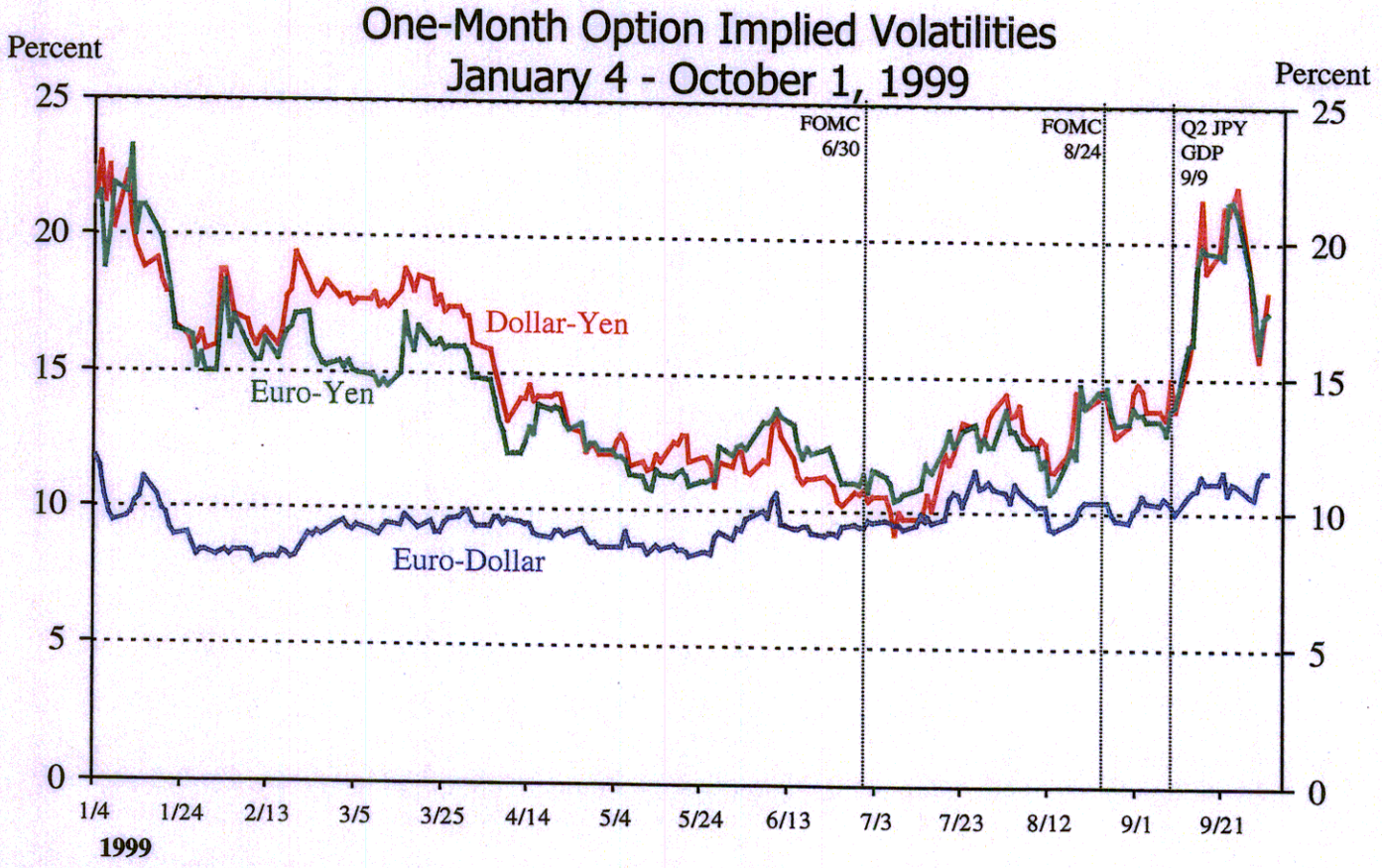
3-Month Deposit Rates

June 1, 1999 - October 1, 1999

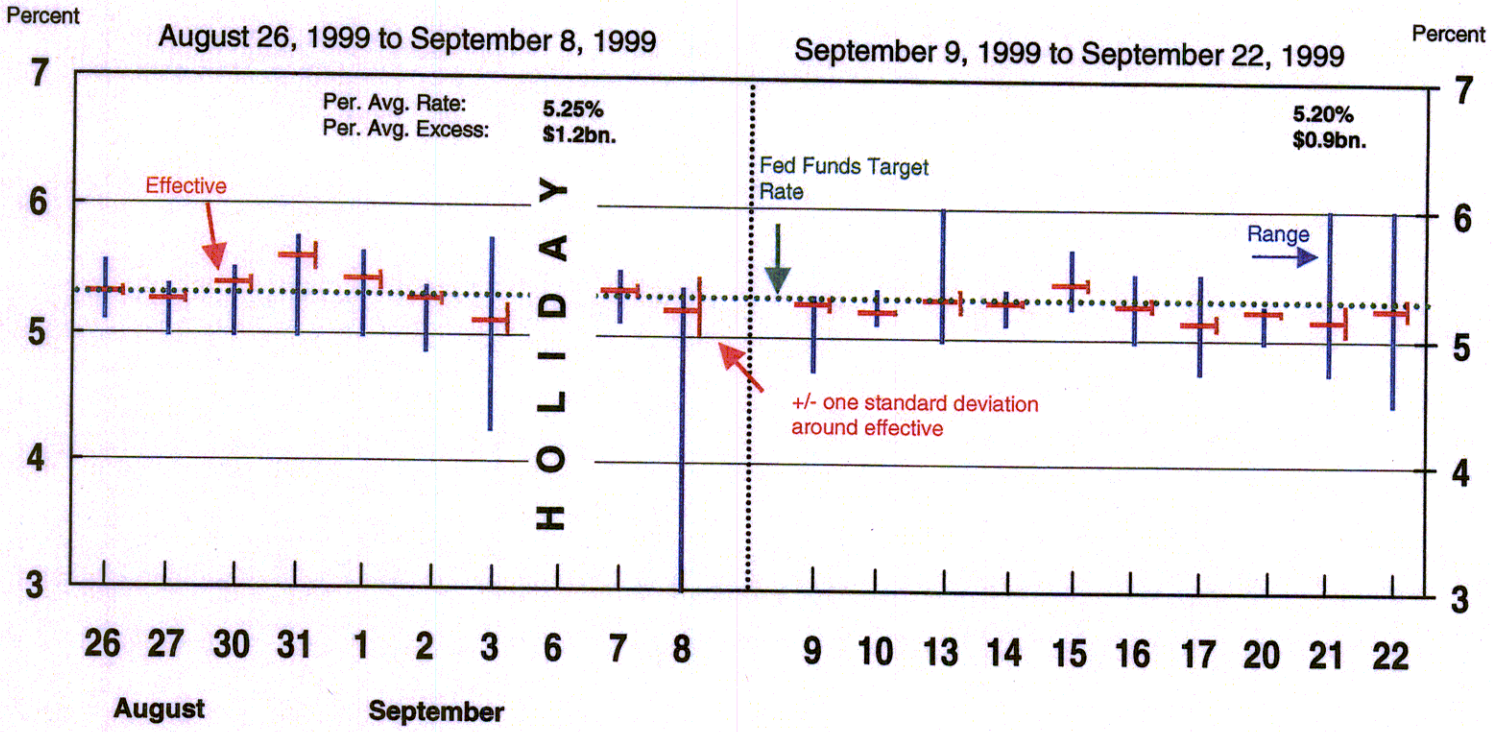
Current Euro-Deposit Rate and Rates Implied by Traded Forward Rate Agreements

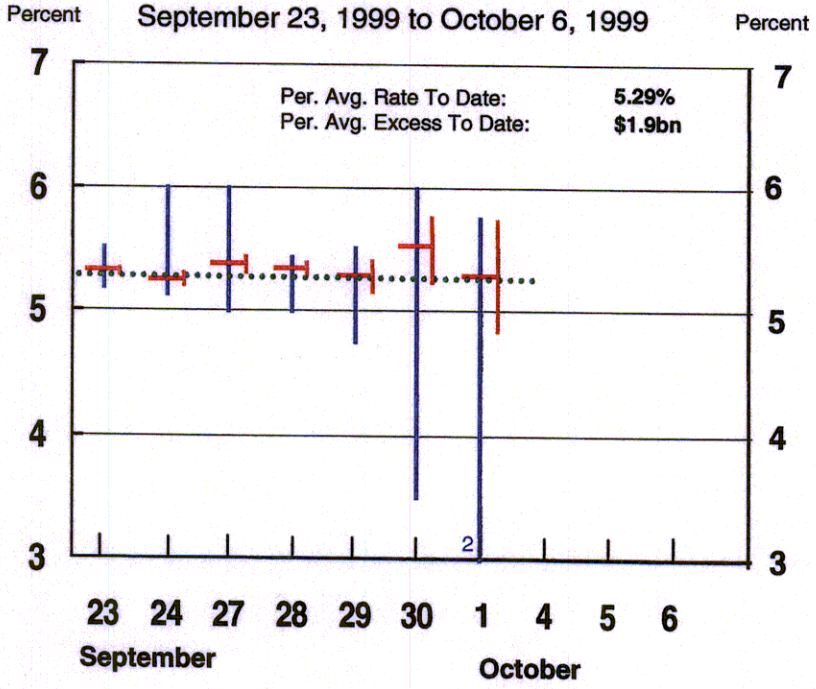


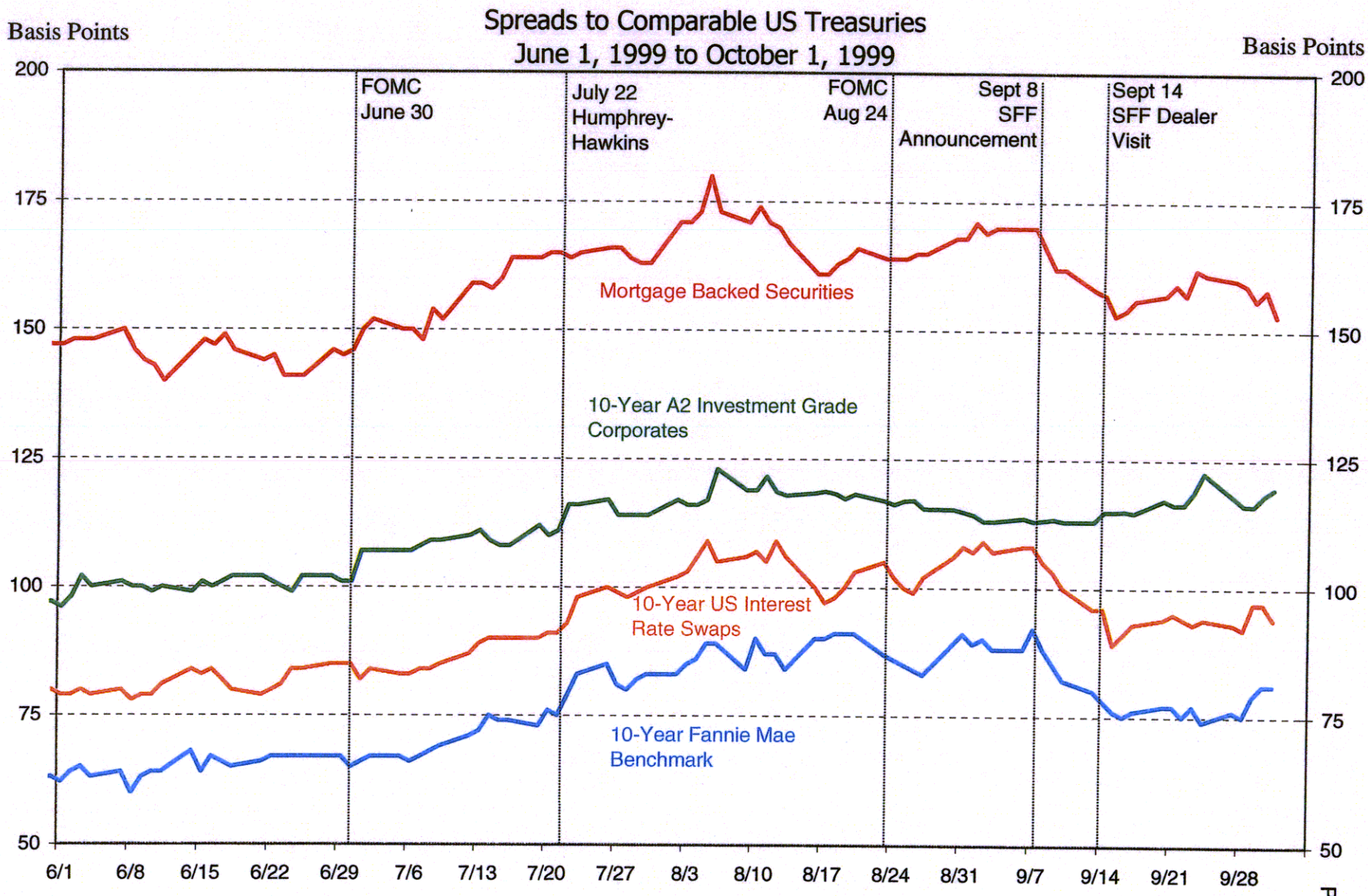

Exchange Rates
January 4 - October 1, 1999
Euro-Yen
Dollar-Yen
Euro-Dollar
135
130
125
120
115
110
105
100
1.35
1.30
1.25
1.20
1.15
1.10
1.05
1.00
FOMC 6/30
FOMC 8/24
Q2 JPY GDP 9/9
Yen per Euro (left scale)
Yen per Dollar (left scale)
Dollars per Euro (right scale)
1/4
1/24
2/13
3/5
3/25
4/14
5/4
5/24
6/13
7/3
7/23
8/12
9/1
9/21
1999


One-Month Option Implied Volatilities
January 4 - October 1, 1999
Percent
Percent
25
20
15
10
5
0
FOMC 6/30
FOMC 8/24
Q2 JPY GDP 9/9
Dollar-Yen
Euro-Yen
Euro-Dollar
1/4
1/24
2/13
3/5
3/25
4/14
5/4
5/24
6/13
7/3
7/23
8/12
9/1
9/21
1999

DAILY FEDERAL FUNDS
TRADING RANGE, EFFECTIVE RATE & +/-ONE STANDARD DEVIATION






Spreads to Comparable US Treasuries
June 1, 1999 to October 1, 1999
Basis Points
Basis Points
200
175
150
125
100
75
50
FOMC
June 30
July 22
Humphrey-
Hawkins
FOMC
Aug 24
Sept 8
SFF
Announcement
Sept 14
SFF Dealer
Visit
Mortgage Backed Securities
10-Year A2 Investment Grade
Corporates
10-Year US Interest
Rate Swaps
10-Year Fannie Mae
Benchmark
6/1
6/8
6/15
6/22
6/29
7/6
7/13
7/20
7/27
8/3
8/10
8/17
8/24
8/31
9/7
9/14
9/21
9/28

Extraordinary Year-End Open Market Operations

I. Expanded collateral, tri-party and longer-term operations

- Preparations. Legal documents and basic operational procedures are now in place.

- Learning from doing. We will need to gain some experience with the "bidding process" to sort out the impact of tri-party vs. Fedwire settlement from the impact of the expanded list of eligible collateral.

  - Will we need three separate submissions for parallel pricing of Treasury, agency debt and MBS collateral? Will we need separate pricing for tri-party and Fedwire settlements?

- Announcing details of operations. I would like to begin announcing the pricing details of the Desk's temporary operations.

  - By tradition the Desk has not announced the lowest repo rate at which we operate, nor any details of dealer propositions. Because we are managing quantities of reserves, there is no operational, nor policy, significance to the "stop out rate".

  - However, given the intense interest in turn-of-year financing rates, and to avoid rumors about the rates paid on our operations, I would like to begin announcing the details of the rates submitted in all of our operations: both repo and matched-sale/reverse repo.

    - Limiting these announcements only to those operations that span the year end would be a possibility. But drawing such distinctions seems awkward. Moreover, a number of central banks now routinely announce this information and I believe we should also.

    - I would plan to include a review of this announcement practice in March of next year, when we present the Committee with a complete review of our special operations.

- Thus: on all the Desk's repo operations, after the completion of the operation, we plan to announce: (1) the range of repo rates submitted by dealers; (2) the total volume of propositions submitted; (3) the lowest repo rate accepted (the stop out rate); and (4) the volume-weighted average of repo rates accepted, in addition to (5) the volume of propositions accepted (and thus of reserves injected) which we have been announcing.

- We plan to announce a similar breakdown of information on our reserve draining operations.

- If different classes of collateral are priced separately we would make these announcements for each class.

II. Standby Financing Facility

- Proposal status. Our revised proposal for auctions of options on repo was circulated to Dealers last Wednesday and to the FOMC by my Sept. 29th memo.

- Announcing auction details. Along with the results of the auctions of the strips of options, we also plan to announce the details of the bidding for each strip, specifically: (1) the range of bids submitted (expressed in half-basis-point increments); (2) the volume of bids submitted; (3) the lowest bid accepted (at which all awards will be priced); and (4) the volume-weighted average of all accepted bids.

- Announcing options exercised. Consistent with our practice of announcing the amount of reserves injected through open market operations, we plan to announce the dollar volume of options exercised.

- Auction amounts. We have received a wide range of indications of potential demand.

  - Inevitably, we will need to adjust to demand both as it expresses itself at the first auction and over the following weeks. But "meeting demand" is one of the objectives and, thus, unfilled auctions will not be an embarrassment but, rather, one sign of "success".

III. Matched-sale/reverse repo transactions and late-day operations

- After we have launched both (a) the expanded collateral, tri-party and term operations and (b) the SFF auctions of options on repo, we will then turn our and the dealers' attention to the practicalities of late-day operations.

- We have been asked by a few dealers and by some of the money-market funds to provide options on matched-sale/reverse repo.

  - We will continue to consider this possibility, but my interest is increasingly focused on our developing the flexibility to drain reserves, in our discretion, if needed, at any time during the day.

- If demand for Treasury securities becomes sufficiently high to pull the general collateral rate on overnight repo towards zero for a prolonged period, and this appeared to create negative spillover consequences on confidence in the functioning of financing markets, we might want to consider undertaking matched-sale or reverse repo transactions in order to add to the supply of Treasury collateral available in the market.