



Uncertainty Prevails in US Market

The Federal Open Market Committee (FOMC) voted 10-1 to hold the Fed Funds rate at 5.25% at its 25 October meeting, the third consecutive pause after 17 hikes over a two-year period. The decision was made against the backdrop of persist softening of energy prices in October slowing inflationary expectations, alongside a dip in the unemployment rate to 4.6% and weakening housing environment. *'The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output.'* The FOMC expects that real Gross Domestic Product growth to settle in the long term roughly around the sustainable level despite a struggling housing market as building permit demands falling and inventories remain historical high. Fortunately, upside inflationary risks declined over the past two months, registering a headline inflation of 1.3% in October 2006, the lowest in more than four years, despite a core personal consumer prices growth of 2.7%. The FOMC however highlighted that inflationary risks are still worrisome and that *'the extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.'*

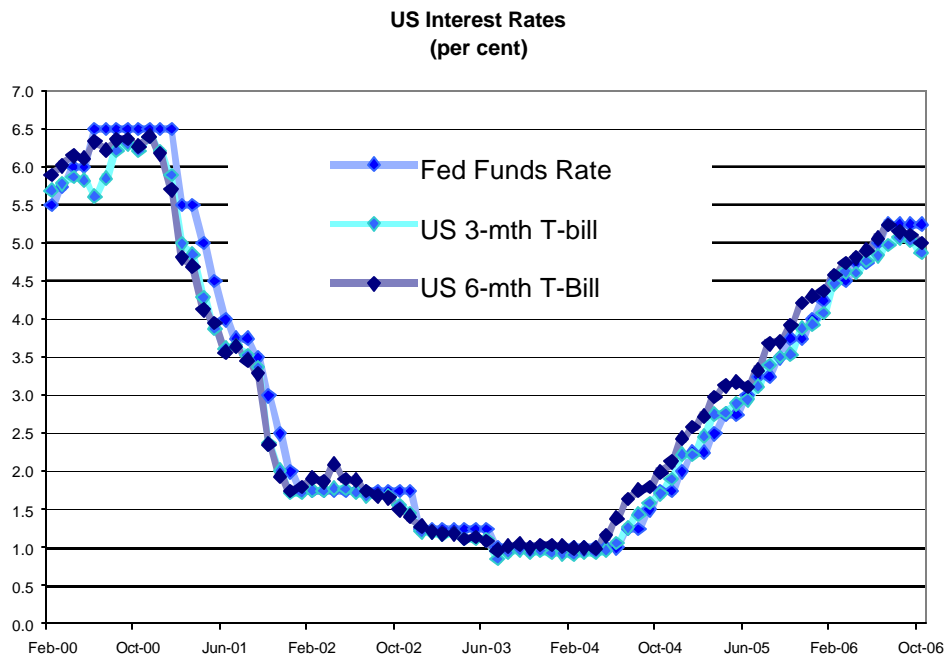
There is an unambiguous positive correlation between the movements in the Fed Funds Rate and other short-term rates in the US economy (see correlation matrix below). The Fed left the benchmark rate unchanged in the last 3 meetings at its current level of 5.25%. In November US producer prices recorded its biggest monthly decline, which reflected a moderation in economic growth and tempered inflationary pressures. Oil prices have also retreated in the past few months. 6 months futures contract have also shown a downward trajectory as well. Simultaneously, growth in the US has receded. In the third quarter of the year, annualized GDP growth came in at 1.6%, well below expectations and the prior quarter's expansion of 2.6%. The cooling of the housing market is partly responsible for the slowing growth.

Table 1: Correlation Matrix

	Fed Funds Rate	US 3-month T-bill Rates	US 6-month T-bill Rates
Fed Funds Rate	1.00	0.99	0.99
US 3-month T-bill Rates	0.99	1.00	1.00
US 6-month T-bill Rates	0.99	1.00	1.00

The next FOMC meeting is scheduled for 12 December and it is expected that they will leave interest rates unchanged at 5.25%. The Fed Funds Rate reached a high of 7% in 1990 and this was under conditions of economic contraction of 0.2% and an inflation rate of 6.1%. The last time the benchmark rate was around the 5%- 5.5% level was between 1999 and 2001. During this period, the average growth rate was 3% and the average inflation rate was 6%. While there is still room for further hikes, there exists general uncertainty regarding US economic data. A mixed picture is being painted for monetary policy in the US for the first quarter of 2007.

Figure 1: US Interest Rates



FINANCIAL & ECONOMIC INDICATORS

As at 16th November 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	118.21	117.45
Euro	1.28	1.28
Jamaica	66.59	66.53
Guyana	201.4	201.4

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	56.26	61.16
Natural Gas (US\$/mmbtu)	7.61	7.35
Gold (US\$/Troy Ounce)	618.25	633.41

Eurobond Indices (Returns, % YTD as of 16- Nov- 06)

Lehman Brothers Global Aggregate Index	3.36
JP Morgan EMBI+	-22.18
CMMB Eurobond Index	3.01

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.25	5.25
Euro Zone	3.25	3.25
Japan	0.25	0.25
Brazil	13.66	13.68
Trinidad	8.00	8.00
Jamaica	11.95	11.95
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	5.10	4.97
US 10-Yr Treasury	4.67	4.62
3-month UK Libor	5.23	5.23
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	13.57	13.25
TT 90-day T-Bill	6.72	6.72
Jamaica 90-day T-Bill		11.77
Barbados 90-day T-Bill	6.42	6.37

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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