

Economic Commentary

May 15, 2001

Fed Cut Rates 50 Basis Points

The Fed just announced a cut in the fed funds rate of half a point to 4.00%. It says that its concern remains weakness in the economy which implies further rate cuts ahead. Future markets are now pricing at 50% the probability of a 25 basis point cut to 3.75% by June 27th.

The Fed has now opened the door for a half point rate cut to 4.5% by Bank of Canada on May 29th. This will bring the prime rate down to 6.00%.

Last Friday the European Central Bank cut its intervention rate by $\frac{1}{4}$ percent to 4.5%.

Kenneth Matziorinis, Ph.D.

Canbek Economics Consultants Inc.