Appendix 1: Materials used by Mr. Kos
Implied Volatility on the S&P 100

Foreign Exchange 1-Month Option Implied Volatilities

Implied Volatility on 10-Year Treasury Futures
Euro-Area Current Deposit Rates and Rates
Implied by Traded Forward Rate Agreements

LIBOR Fixing  3M Forward  6M Forward  9M Forward

Index of Euro Corporate Spreads to Comparable German Government Debt
January 1, 2001 - May 5, 2003

Monthly Euro-Denominated Investment Grade Corporate Issuance
January 2001 - April 2003

Euro-Dollar Exchange Rate
Equity Indices

Index
1/1/2003=100

Japanese Bank Debts Spreads to 5-Year JGB

Index
1/1/2003=100
Canadian Dollar Exchange Rate
January 1, 2002 - May 5, 2003

U.S. Dollars per Canadian Dollar

U.S. and Canadian 10-2-Year Spreads

Basis Points

Hong Kong Current and Forward Exchange Rates

Chinese Current and Forward Exchange Rates

Hong Kong Dollars per USD

Yuan per USD

3/4/03 Bank of Canada tightens 25bp to 3.00%
4/15/03 Bank of Canada tightens 25bp to 3.25%
Appendix 2: Materials used by Mr. Reinhart
Exhibit 1
Policy Expectations

Probability of 1.00% target as opposed to 1.25% target*

*Represents the probability that the target funds rate will be 1.00% following the May 6 FOMC meeting. Calculation based on May 2003 federal funds futures contract.

Five minute intervals

Expected Federal Funds Rates*

Market Uncertainty Regarding the Federal Funds Rate*

Implied Distribution of the Federal Funds Rate Derived from Options Prices*

Market Uncertainty Regarding Swap Rates Six Months Ahead*

Note: Solid vertical lines indicate March 17, 2003.

*Calculated from 150-day constant maturity eurodollar options.

*Width of 90 percent confidence interval computed from futures rates and implied volatility.

Note: Solid vertical lines indicate March 17, 2003.
Exhibit 2
The Case for Holding Policy Unchanged

- The staff forecast is likely and, over the period policy action would take effect, acceptable.
- Economic slack may be worked down sooner and disinflation less likely than in the staff forecast.
- Financial market participants might react adversely to action.

Real GDP Growth
Quarterly, annual rate

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2003 Q1</th>
<th>2003 Q2</th>
<th>2003 Q3</th>
<th>2003 Q4</th>
<th>2004 Q1</th>
<th>2004 Q2</th>
<th>2004 Q3</th>
<th>2004 Q4</th>
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Change in Selected Financial Quotes
Since March 12

<table>
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<th>Financial Quote</th>
<th>Basis Points</th>
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<tbody>
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<td>Ten-year Treasury Yield</td>
<td>26</td>
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<tr>
<td>Wilshire 5000 (pct)</td>
<td>16</td>
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<tr>
<td>Ten-Year BBB (bps)</td>
<td>-24</td>
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<tr>
<td>Five-year High Yield (bps)</td>
<td>144</td>
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</tbody>
</table>

Policy Surprises at FOMC Meetings*

*Actual intended rates after the meeting less the expected rate inferred from futures quotes.
Exhibit 3

The Case for Easing Policy

- Resources are underused over the projection period.
- Downside risks to demand are more likely or more costly.
- Inflation may fall further from its already low level.

Unemployment Rate*

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
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<td>2004</td>
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*Staff projections from Greenbook.

Probability of Federal Funds Rate below 1 percent and 0.5 percent by the fall*

- Below 1 percent
- Below 0.5 percent

*Calculated from 150-day constant maturity eurodollar options.

CPI Inflation

Four-quarter percent change

Note. Horizontal line drawn at 1.4 percent.
Exhibit 4
The Balance of Risks Assessment

FRBNY Survey of Primary Dealers*

<p>| | |</p>
<table>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Risks balanced</td>
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<td>Risks toward weakness</td>
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<tr>
<td>No risk assessment</td>
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*Conducted on April 28-29.

Three Options

1. Reinstate the balance-of-risks language

2. Abandon the balance-of-risks language.

3. Augment the assessment of risks.