

August Liquidity Market Update

While perhaps some did not think it possible, money market yields continued to fall during August. This continuation was driven by many factors, two of which were the abundance of supply in the government and repo markets and the reaction of the marketplace following the Federal Reserve's statement in August that indicated a raise in interest rates was unlikely until sometime in 2010.

During the month, one- and three-month LIBOR declined, falling by 2 and 13 basis points, respectively. The three-month Treasury bill yield averaged 17 basis points in August; taken with the previously mentioned decline in LIBOR, the TED spread also tightened, coming in 10 basis points lower during the month to close at 20. This information confirms the continuation of the trend of spread compression and an overall flattening of the short-term yield curve.

While there was some positive economic news during the month, it is important to look carefully at the complete picture and not fixate on a single data point. Consumer spending was much improved; however, it is likely that this was mainly due to the success of the "Cash-for-Clunkers" program rather than a broad improvement. Indeed, it is expected that spending for nondurable goods declined during the same time frame. While housing construction data improved, mortgage delinquencies continued to rise.

Columbia Management continues to stress that any positive news is only positive when looked at on a relative basis. When looked at in absolute terms, there is still a long road that must be traveled before we will once again be back to where we were prior to the start of the recession. Keeping this in mind, Columbia Management's strategy remains focused on the stability and liquidity of our products in this difficult interest rate environment.

LIBOR — The interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

TED spread — The price difference between three-month futures contracts for U.S. Treasuries and three-month contracts for eurodollars having identical expiration months.

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