THE CENTRAL BANKS LED BY FED CUT COST OF BORROWING DOLLARS IN ORDER TO EASE DEBT CRISIS

Six central banks, that are led by the Federal Reserve, made it cheaper for banks to borrow dollars in emergencies in a global effort to ease Europe's sovereign-debt crisis. Stocks rallied, driving the Down Jones Industrial Average up the most its been since March of 2009, commodities surged and yields on most European debt fell on the show of force from the central banks aimed at easing strains in financial markets. The cost of the European banks to borrow dollars dropped from the highest in three years, tempering concerns about the euro's worsening crisis after leaders said that they'd failed to boost the region's bailout fund as much as planned. ''It's supportive but not necessarily a game changer,'' said Michelle Girard, who is the senior U.S. economist at RBS Securities Inc. in Stamford, Connecticut. ''The impact is more psychological than anything else'' as the investors take heart from policy makers' coordination, said Girard. The Fed said in a statement in Washington, that the premium banks pay, to borrow dollars overnight from central banks, will fall by half a percentage point to 50 basis points. The so-called dollar swap lines will be extended by six months to Februar. 1, 2013. The Fed coordinated the move with the European Central Bank and the other central banks of Canada, Japan, Switzerland, and the U.K. The six central banks agreed to also create temporary bilateral swap programs so funding can be provided in any of the currencies ''should market conditions so warrant.'' Those swap lines were also authorized through February 1 of 2013. The swap lines were previously set to expire near August 1 of 2012. The new pricing will be applied to the operations starting on December 5. The seven-day loans will carry out an interest rate of about 0.58 percent, down from 1.08 percent, based on the current one-week overnight index swap rate of 0.08 percent. OIS is a new measure of expectations for the benchmark federal funds rate. ''This was in response to increased tension in global financial markets,'' the Bank of Japan Governor Masaaki Shirakawa said on Wednesday at a press conference in Tokyo. ''Coordinated action will give markets a sense of security.'' Canadian Finance Minister Jim Flaherty said in a Bloomberg Television interview in New York that the action was not aimed at supporting any specific financial institution. At 4 pm in New York the Dow jumped 490.05 points, or 4.2 points, to 12,045.68, and the Stoxx Europe 600 Index earlier surged 3.6 percent. The euro strengthened to $1.3444 from $1.3317. The yield on the 10-year Treasury note climbed to 2.08 percent from 1.99 percent. ''When there's concerted action by central banks, it’s definitely good.'' said Jens Sondergaard, who is the senior European economist at Nomura International Plc. in London. ''But are liquidity injections a game changer when the heart of the problem is in European sovereign debt markets?''