

## Meeting of the Federal Open Market Committee September 24, 2002 Presentation Materials -- Text Version

[Presentation Materials \(914 KB PDF\)](#)

Pages 106 to 115 of Transcript

### Appendix 1: Materials used by Mr. Kos

#### Page 1

##### Top panel

**Title:** U.S. Current Deposit Rates and Rates Implied by Traded Forward Rate Agreements

**Series:** U.S. LIBOR fixing, 3-month forward rate agreement, 6-month forward rate agreement, 9-month forward rate agreement

**Horizon:** June 3, 2002 - September 20, 2002

**Description:** U.S. deposit rates and rates implied by traded forward rate agreements declined.

Source: Bloomberg

##### Middle-left panel

**Title:** 2- and 5-Year Treasury Yields

**Series:** 2- and 5-year Treasury yields

**Horizon:** June 3, 2002 - September 20, 2002

**Description:** 2- and 5-year Treasury yields declined over the period.

Source: Bloomberg

##### Middle-right panel

**Title:** 10- and 30-year Treasury Yields

**Series:** 10- and 30-year Treasury yields

**Horizon:** June 3, 2002 - September 20, 2002

**Description:** 10- and 30-year Treasury yields declined over the period.

Source: Bloomberg

##### Bottom panel

**Title:** Mortgage Bankers Association Refinancing Index and Short-Dated Swaption Implied Volatility

**Series:** MBS refinancing index and 3-month option-implied volatility on 10-year swaps

**Horizon:** January 1, 2001 - September 20, 2002

**Description:** The MBS refinancing index and 3-month option-implied volatility on 10-year swaps rise in the end of 2001 and again in the final months displayed on the chart.

Source: Bloomberg

## Page 2

### Top panel

**Title:** Daily U.S. Investment Grade Corporate Option-Adjusted Spreads

**Series:** Lehman Brothers investment-grade corporate option-adjusted spreads

**Horizon:** January 1, 2002 - September 20, 2002

**Description:** Investment-grade corporate option-adjusted spreads rose in July and August.

Source: Lehman Brothers

### Middle panel

**Title:** U.S. Investment Grade Fixed Rate Non-144a Weekly Issuance

**Series:** Lehman Brothers reported issuance of U.S. investment grade fixed rate non-144a debt

**Horizon:** January 4, 2002 - September 20, 2002

**Description:** The 4-week weekly average of issuance increased since mid-August.

Source: Lehman Brothers

### Bottom panel

**Title:** Monthly U.S. Investment Grade Corporate Debt Excess Returns

**Series:** Spread between returns of corporate bonds relative to duration equivalent Treasuries

**Horizon:** August 31, 1992 - August 30, 2002

**Description:** Spread between returns of corporate bonds relative to duration equivalent Treasuries reached the lowest level over this period in 2002.

Source: Lehman Brothers

## Page 3

### Top panel

**Title:** Japanese Equity Indices

**Series:** Topix bank sub-index, the Topix index, and the Nikkei index

**Horizon:** May 1, 2002 - September 20, 2002

**Description:** The Topix banks sub-index increases sharply after September 4, 2002.

Source: Bloomberg

### Middle-left panel

**Title:** 10-year Japanese Government Bond Yield

**Series:** 10-year JGB

**Horizon:** May 1, 2002 - September 20, 2002

**Description:** 10-year JGB yields rose sharply since the September 10, 2002 Q2 GDP revision.

Source: Bloomberg

### Middle-right panel

**Title:** Japanese Bank Deposits and Loans

**Series:** Japanese bank loans and deposits

**Horizon:** January 1993 to August 2002

**Description:** Total Japanese bank loans declined while bank deposits increased over the period.

Source: BOJ

### **Bottom panel**

**Title:** Japanese Government Yield Curves

**Series:** Japanese Government Yield Curve

**Horizon:** March 1, 2001; September 20, 2001; September 20, 2002

**Description:** The Japanese government yield curve was steep.

Source: Bloomberg

## **Page 4**

### **Top panel**

**Title:** Euro-Area Current Deposit Rates and Rates Implied by Traded Forward Rate Agreements

**Series:** Euro-area LIBOR fixing, 3-month forward rate agreement, 6-month forward rate agreement, 9-month forward rate agreement.

**Horizon:** June 3, 2002 - September 20, 2002

**Description:** The Euro-area deposit rates and rates implied by traded forward rate agreements declined over the period.

Source: Bloomberg

### **Middle panel**

**Title:** U.S. Versus European Equity Indices

**Series:** The Dow Jones Euro Stoxx index; Dow Jones Euro Stoxx Insurance sub-index; S&P 500; S&P 500 Insurance sub-index.

**Horizon:** June 3, 2002 - September 20, 2002

**Description:** European equity indices declined more than the comparative U.S. indices.

Source: Bloomberg

### **Bottom panel**

**Title:** 10-Year German Government Bund Yield

**Series:** 10-Year German Government Bund

**Horizon:** June 3, 2002 - September 20, 2002

**Description:** The yield on the German 10-year government bund declined over the period.

Source: Bloomberg

## **Page 5**

### **Top panel**

**Title:** Currency Component of M1 (s.a.) 1-Month Annualized Growth Rate

**Series:** Currency component of M1 (s.a.).

**Horizon:** September 2000 - September 2002

**Description:** The rate of Currency growth was expected to slow significantly in September 2002.

## Appendix 2: Materials used by Mr. Reinhart

### Exhibit 1

Exhibit 1 includes six charts and tables that provide information on financial market reactions to the most recent FOMC announcement, money policy expectations, and interest rate developments over the intermeeting period.

#### Top panel

##### Market Reaction to August FOMC Announcement<sup>1</sup>

###### Top-left panel

###### Interest Rate Futures

A bar chart displays changes in implied rates on interest rate futures at various horizons from the front contract through August 2003 in response to the most recent FOMC announcement in a window from 2:00 pm to 2:30 pm. The chart conveys the notion that the switch in the risk assessment and the associated words seemed to suggest a downward revision to the economic outlook consistent with the federal funds rate being 20 basis points lower over the next two years than previously anticipated.

###### Top-right panel

###### Treasury Yields

A bar chart that similarly shows the reaction to two-, five-, and ten-year Treasury yields over the same period. The chart shows that these rates declined between 5 and 15 basis points, with more of the decline at shorter maturities.

1. Change in market quotes in a window bracketing the FOMC announcement (2:00 pm to 2:30 pm). [Return to text](#)

###### Middle-left panel

###### Ten-Year Treasury Yield

A line chart of the ten-year Treasury yield plotted from August 1 through September 23. The horizontal axis ranges from 4.0 to 4.8 percent. Vertical lines in the chart sequentially denote the dates of the FOMC announcement, the Recertification date, the new home sales data release, durable goods, ISM manufacturing, ISM Non-manufacturing, the employment report, the 9/11 anniversary, and the Chairman's testimony. The chart illustrates that these economic data releases were mixed.

###### Middle-right panel

###### Change Since August 12

	basis points
Total	-49
Due to Econ Releases	0

The total change since August 12 in ten-year yields was -49 basis points over the intermeeting period, but the net movement in ten-year yields around the data releases shown in the middle-left panel was 0 basis points.

###### Bottom-left panel

###### Expected Federal Funds Rates

A line chart of the expected federal funds rate--estimated from federal funds and Eurodollar futures with an allowance for term premium and other adjustments--on August 12, 2002 and September 23, 2002. The maturities extent from the September 2002 contract though January 2005, and the chart shows that investors marked down the expected funds rate by the beginning of 2005 from about 3.60 to 3.00 percent.

### **Bottom-right panel** **Treasury Yield Curve**

A line chart that shows the Treasury yield curve--smoothed from off-the-run Treasury coupon securities with yields expressed as notional par Treasury securities with semi-annual coupons--on August 12, 2002 and September 23, 2002. The chart conveys that the yield curve shifted down in a fairly parallel fashion over the intermeeting period.

## **Exhibit 2** **(Bluebook Chart 6)** **Policymaker Perfect Foresight Strategy for Monetary Policy**

Exhibit 2 includes four charts that correspond to Chart 6 in the Bluebook, which reports on the "policymaker perfect foresight" strategy simulations for monetary policy. These simulations take the staff outlook and the FRB/US model as assured representations of how the world will evolve over the next five years and assume that policymakers care equally about deviations of unemployment from its natural rate and core inflation from an assumed target.

### **Top-left panel** **Nominal Federal Funds Rate**

A chart of three lines depicting the nominal federal funds rate path under the baseline assumption, a one percent inflation goal, and a 1½ percent inflation goal. The horizontal axis ranges from 2001 through the end of the 2007, and the vertical axis runs from zero to 7 percent. For the remainder of 2003, the baseline path lies above the paths implied by the 1 percent and the 1½ percent inflation goals, respectively. At the end of the forecast horizon, the funds rate under the 1½ percent goal is greater than that for the 1 percent objective.

### **Top-right panel** **Real Federal Funds Rate<sup>1</sup>**

A chart of three lines depicting the real federal funds rate path under the baseline assumption, a one percent inflation goal, and a 1½ percent inflation goal. The horizontal axis ranges from 2001 through the end of the 2007, and the vertical axis runs from -2 to 5 percent. For the remainder of 2003, the baseline path lies above the paths implied by the 1 percent and 1½ percent inflation goals, respectively. From the middle of 2004 through the end of 2007, the funds rates under 1½ percent and 1 percent goal are largely similar and increase to a level just under 2.5 percent at the end of the forecast.

1. The real federal funds rate is calculated as the quarterly average nominal funds rate minus the four-quarter lagged core PCE inflation rate as a proxy for inflation expectations. [Return to text](#)

### **Middle panel** **Civilian Unemployment Rate**

A chart of three lines depicting the civilian unemployment rate under the baseline assumption, a one percent inflation goal, and a 1½ percent inflation goal. The horizontal axis ranges from 2001 through

the end of the 2007, and the vertical axis runs from 3.5 to 6.5 percent. For the entire forecast period, the baseline path lies above the paths implied by the 1 percent and 1½ percent inflation goals, respectively.

### **Bottom panel**

#### **PCE Inflation (ex. food and energy)**

A chart of three lines depicting the core PCE rate, excluding food and energy and expressed as a four-quarter percent change, under the baseline assumption, a one percent inflation goal, and a 1½ percent inflation goal. The horizontal axis ranges from 2001 through the end of the 2007, and the vertical axis runs from 1 to 2 percent. For the entire forecast period, the path implied by the 1½ inflation goal lies above that implied by the 1 percent goal, which in turn is greater than the baseline.

### **Exhibit 3**

#### **(Bluebook Chart 5)**

#### **Actual Real Federal Funds Rate and Range of Estimated Equilibrium Real Rates**

### **Top panel**

A line chart--Chart 5 in the Bluebook--that includes the actual real federal funds rate and a range of estimated equilibrium real rates from 1990 through 2002 at a quarterly frequency. The vertical axis ranges from -1 to 5 percent. A dotted horizontal line shows the historical average: 2.74 (1966:Q1-2002:Q2). The lines include the actual real funds rate as well as a TIPS-based estimate. The shaded range represents the maximum and the minimum values each quarter of six estimates of the equilibrium real federal funds rate based on a statistical filter and the FRB/US model. Real federal funds rates employ four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projections used for 2002:Q3. The actual real funds rate is notably below zero as well as the TIPS-based estimate for the most recent year of the sample period, and both series lie outside the shaded region.

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