

## Meeting of the Federal Open Market Committee December 13, 2005 Presentation Materials -- Text Version

[Presentation Materials \(920 KB PDF\)](#)

Pages 91 to 100 of the Transcript

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

#### Page 1

##### Top panel

**Title:** Trade Weighted US Dollar

**Series:** US Dollar

**Horizon:** January 3, 2005 - December 8, 2005

**Description:** The US dollar index increased.

Source: Federal Reserve

##### Middle-left panel

**Title:** Yen/Dollar

**Series:** Yen/Dollar

**Horizon:** January 3, 2005 - December 12, 2005

**Description:** The Dollar appreciated against the Yen.

##### Middle-right panel

**Title:** Dollar/Euro

**Series:** Dollar/Euro

**Horizon:** January 3, 2005 - December 12, 2005

**Description:** The dollar depreciated against the Euro.

##### Bottom panel

**Title:** U.S. Trade Weighted Dollar and Current Account Deficit

**Series:** US Dollar and Current Account as a percent of GDP

**Horizon:** 1980 - 2005

**Description:** The US dollar index decreased and the current account deficit increased.

#### Page 2

##### Top panel

**Title:** GDP Weighted Sovereign Yield Curves

**Series:** US Treasury Curve, G-7, and G-7 Ex-U.S. for January 3, 2004

**Horizon:** 3-month, 2-year, 5-year and 10-year

**Description:** Sovereign yield curves increase.

### **Middle panel**

**Title:** GDP Weighted Sovereign Yield Curves

**Series:** US Treasury Curve, G-7, and G-7 Ex-U.S. for January 3, 2005

**Horizon:** 3-month, 2-year, 5-year and 10-year

**Description:** Sovereign yield curves increase.

### **Bottom panel**

**Title:** GDP Weighted Sovereign Yield Curves

**Series:** US Treasury Curve, G-7, and G-7 Ex-U.S. for December 12, 2005

**Horizon:** 3-month, 2-year, 5-year and 10-year

**Description:** Sovereign yield curves increase.

## **Page 3**

### **Top panel**

**Title:** Current U.S. and Euro-area 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

**Series:** LIBOR fixed, 3-month forward, 6-month forward, and 9-month forward for the US and the Euro-Area

**Horizon:** January 3, 2005 - December 12, 2005

**Description:** The LIBOR fixed, 3-month forward, 6-month forward and 9-month forward for both the US and the Euro-Area increased.

### **Middle panel**

**Title:** Current Japanese 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

**Series:** LIBOR fixed, 3-month forward, 6-month forward, and 9-month forward

**Horizon:** January 3, 2005 - December 12, 2005

**Description:** The Japanese LIBOR fixed, 3-month forward, 6-month forward, and 9-month forward increased.

### **Bottom panel**

**Title:** Global Equity Performance

**Series:** Returns on Local Currency and Returns in US dollar terms for S&P 500, Nikkei, DJ Stoxx, Brazil Bovespa, and Mexico Bolsa

**Horizon:** January 3, 2005 - December 12, 2005

**Description:** Global equity performance increased across each of the countries.

## **Page 4**

### **Top panel**

**Title:** Emerging Market and High Yield Debt Spreads

**Series:** High yield and EMBI+

**Horizon:** January 3, 2005 - December 9, 2005

**Description:** The High yield debt spread widened, while the EMBI+ Index decreased.

Source: JP Morgan and Merrill Lynch

### **Middle-left panel**

**Title:** Investment Grade Debt Spread

**Series:** Investment grade debt spread

**Horizon:** January 3, 2005 - December 9, 2005

**Description:** The investment grade debt spread widened.

Source: Lehman Brothers

### **Middle-right panel**

**Title:** Credit Default Swaps: GM and High Yield Index

**Series:** General Motors, CDX High Yield Index

**Horizon:** January 3, 2005 - December 9, 2005

**Description:** General Motors credit default swap increased sharply, while the credit default swap of the high yield index increased moderately.

Source: Morgan Stanley

### **Bottom-left panel**

**Title:** Implied Volatility on the S&P 100

**Series:** Implied volatility on the S&P 100

**Horizon:** January 3, 2005 - December 9, 2005

**Description:** The implied volatility on the S&P 100 is below the average since January 1990.

Average Since January 1990: 19.23 percent

### **Bottom-right panel**

**Title:** Treasury Yield Implied Volatility

**Series:** Treasury yield implied volatility

**Horizon:** January 3, 2005 - December 9, 2005

**Description:** The Treasury yield implied volatility is below the average since April 1988.

Average Since April 1988: 102.57 basis points

Source: Move Index, Merrill Lynch

## **Page 5**

### **Top panel**

**Title:** Net SOMA Expansions

**Series:** Net SOMA expansions

**Horizon:** 1995 - 2005

**Description:** Net SOMA Expansions totaled about \$25 billion in 2005 through November.

## **Middle panel**

**Title:** Currency in Circulation

**Series:** Currency in circulation (December to December change)

**Horizon:** 1995 - 2005

**Description:** Currency in circulation increased about \$22 billion in 2005 through November.

## **Bottom-left panel**

**Title:** Year-Over-Year Currency Growth Rates

**Series:** Currency growth rates

**Horizon:** January 3, 2005 - December 9, 2005

**Description:** The daily currency growth rate declined.

## **Bottom-right panel**

**Title:** Rise and Fall of Currency Levels Around Year-Ends

**Series:** 01 - 02, 02 - 03, 03 - 04, 04 - 05, 05 - 06 (through Dec. 8), and projected 05 - 06

**Horizon:** November 1 - January 31

**Description:** Cumulative percent changes from early November show that the greatest change is in late December and then the change shrinks by the end of January.

## **Appendix 2: Materials used by Mr. Madigan**

Material for **FOMC Briefing on Monetary Policy Alternatives**

Brian Madigan

December 13, 2005

**Class I FOMC - Restricted Controlled (FR)**

### **Exhibit 1**

Exhibit 1 reports on recent financial market developments.

#### **Top-left panel**

##### **Expected Federal Funds Rates\***

A line chart plots the expected path of the federal funds rate derived from federal funds futures on two dates--the date before the last FOMC meeting and the most recent date. The chart indicates that the expected funds rate path has revised up somewhat over the intermeeting period.

\* Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments. [Return to text](#)

#### **Top-right panel**

##### **Probability of a 25 Basis Point Tightening at Upcoming FOMC Meetings\***

A bar chart compares the probability of a 25 basis point tightening of policy at upcoming meetings computed on the most recent date and as of the date of the prior meeting. The chart indicates slightly higher probabilities of policy tightening at the current and upcoming meetings.

\* Estimated from federal funds futures. [Return to text](#)

**Middle-left panel**  
**Primary Dealer Survey**

- Most expect "accommodation" to be modified or dropped.
- Half expect "measured pace" to be modified or dropped.

**Middle-right panel**  
**A Case for Firming Policy Today**

- Probably little remaining slack.
- Considerable economic momentum.
- Real funds rate near lower end of estimates of equilibrium.
- Concern about inflationary pressure.
- Incoming data consistent with continued measured firming.

**Bottom panel**  
**Range of Estimated Equilibrium Real Rates**

A chart plots the current real federal funds rate along with a range of model-based estimates of the equilibrium real rate. The chart indicates that the current real funds rate is at the lower bound of the range of model estimates of the equilibrium real rate.

An explanatory note is provided in Chart 5 of the Bluebook.

**Exhibit 2**  
**Table 1: Alternative Language for the December FOMC Announcement**

[Note: In Appendix 2, Exhibit 2, Table 1, emphasis (strike-through) has been added to indicate strike-through text in the original document, and strong emphasis (bold) has been added to indicate red text in the original document.]

	<b>November FOMC</b>	<b>Alternative B</b>	<b>Alternative C</b>
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4¼ percent.
<b>Rationale</b>	2. Elevated energy prices and hurricane-related disruptions in economic activity have temporarily depressed output and employment. However, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity that will likely be augmented by planned rebuilding in the hurricane-affected areas.	<b>Despite</b> <del>E</del> -elevated energy prices and hurricane-related disruptions, <b>in the expansion in</b> economic activity <b>appears solid.</b> <del>have temporarily depressed output and employment. However, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity that will likely be augmented by planned rebuilding in the hurricane-affected areas.</del>	<b>Despite</b> <del>E</del> elevated energy prices and hurricane-related disruptions, <del>in</del> economic activity <b>the expansion</b> <del>have temporarily depressed output and employment.</del> <b>remains vigorous, supported by</b> <del>However, monetary policy accommodation, coupled with</del> <b>and</b> robust underlying growth in productivity, <del>is providing ongoing support to economic activity that will likely be augmented by planned rebuilding in the hurricane-affected areas.</del>
	3. The cumulative rise in energy and other costs has the potential to add to inflation pressures; however, core inflation has been relatively low in recent months and longer-term inflation	<del>The cumulative rise in energy and other costs has the potential to add to inflation pressures; however, e</del> Core inflation has <b>been stayed</b> relatively low in recent months and longer-term inflation	<b>Core inflation has been relatively low in recent months and longer-term inflation expectations remain contained. Nevertheless, relatively high levels of resource utilization as</b>

## November FOMC

## Alternative B

## Alternative C

expectations remain contained.

expectations remain contained.

**Nevertheless, possible increases in resource utilization as well as elevated energy prices have the potential to add to inflation pressures.**

**well as elevated** ~~The cumulative rise in energy prices have and other costs has~~ the potential to add to inflation pressures. ~~; however, core inflation has been relatively low in recent months and longer term inflation expectations remain contained.~~

4. The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal.

**The Committee judges that some further measured policy firming is likely to be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.**

[Unchanged]

### Assessment of Risk

5. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

**In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.**

[Unchanged]

[▲ Return to top](#)