

## Meeting of the Federal Open Market Committee March 18, 2008 Presentation Materials -- Text Version

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

Pages 114 to 127 of the Transcript

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

Class II FOMC - Restricted FR

#### Page 1

#### Top panel

#### (1) Collateral Haircuts Moving Higher

February 1, 2008 - March 10, 2008

Haircuts by Asset Class

COLLATERAL	Date	Maturity								
		Overnight			1-Month			3-Month		
		Average	High	Low	Average	High	Low	Average	High	Low
Treasury	10-Mar	0.3%	1.5%	0.0%	0.3%	1.5%	0.0%	0.4%	1.5%	0.0%
	3-Mar	0.2%	1.5%	0.0%	0.3%	1.5%	0.0%	0.4%	1.5%	0.0%
	1-Feb	0.2%	1.5%	0.0%	0.3%	1.5%	0.0%	0.4%	1.5%	0.0%
Agency Debt	10-Mar	0.7%	2.0%	0.0%	1.2%	5.0%	0.0%	1.3%	5.0%	0.0%
	3-Mar	0.6%	2.0%	0.0%	0.9%	3.0%	0.0%	1.0%	3.0%	0.0%
	1-Feb	0.6%	2.0%	0.0%	0.9%	3.0%	0.0%	1.0%	3.0%	0.0%
Agency MBS	10-Mar	5%	7%	3%	5%	8%	3%	7%	10%	3%
	3-Mar	3%	3%	3%	3%	3%	3%	4%	5%	3%
	1-Feb	3%	3%	2%	3%	3%	3%	4%	5%	3%
<b>Non-agency MBS</b>										
Prime	10-Mar	16%	20%	10%	18%	20%	12%	17%	18%	15%
	3-Mar	16%	18%	15%	16%	18%	15%	18%	18%	18%
	1-Feb	11%	15%	5%	10%	18%	4%	12%	18%	7%
Alt-A	10-Mar	23%	33%	18%	25%	33%	18%			
	3-Mar	14%	18%	10%	16%	20%	10%			
	1-Feb	11%	13%	10%	11%	13%	10%			
<b>Corporate Debt</b>										

**Maturity****Overnight****1-Month****3-Month**

COLLATERAL	Date	Overnight			1-Month			3-Month		
		Average	High	Low	Average	High	Low	Average	High	Low
High Grade	10-Mar	12%	25%	5%	16%	25%	5%	18%	25%	15%
	3-Mar	11%	25%	3%	13%	25%	3%	18%	25%	15%
	1-Feb	10%	25%	3%	11%	25%	3%	14%	25%	3%
High Yield	10-Mar	30%	70%	10%	32%	70%	15%	36%	70%	25%
	3-Mar	26%	70%	9%	27%	70%	10%	35%	70%	20%
	1-Feb	25%	70%	6%	26%	70%	10%	28%	70%	10%

Source: Survey of 11 Hedge Funds and 1 REIT

**Bottom panel****(2)****Title:** Mortgage Rates**Series:** Fannie Mae current coupon mortgage yield and option-adjusted spread and 10-year Treasury yield**Horizon:** January 1, 2008 - March 17, 2008**Description:** Fannie Mae current coupon mortgage yields and option-adjusted spreads, and 10-year Treasury yields, decline after FOMC announcements.

Note: Vertical dotted lines denote FOMC announcements on 3/7 and 3/11

Source: Bloomberg and Lehman Brothers

**Page 2****Top panel****(3)****Title:** Spread between Jumbo and Conforming Mortgage Rates Remains Wide**Series:** Jumbo mortgage rates, conforming mortgage rates, and spread**Horizon:** January 1, 2007 - March 14, 2008**Description:** The spread between jumbo and conforming rates remains wide.

Source: Bloomberg

**Middle panel****(4)****Title:** Prices Across ABX Tranches Decline Further**Series:** Price on AAA, AA, A, BBB, and BBB- rated tranches of the ABX 07-01 vintage**Horizon:** January 1, 2007 - March 14, 2008**Description:** Prices on AAA, AA, A, BBB, and BBB- rated tranches of the ABX 07-01 vintage have continued to decline.

Source: JP Morgan

**Bottom panel****(5)**

**Title:** Fannie Mae and Freddie Mac's CDS Spreads Rise and Equity Prices Decline

**Series:** Credit default swap spreads and equity prices for Fannie Mae and Freddie Mac

**Horizon:** January 1, 2007 - March 17, 2008

**Description:** While credit default swap spreads widened for Fannie Mae and Freddie Mac, their equity prices declined.

Source: Markit and Bloomberg

## Page 3

### Top panel

(6)

**Title:** Corporate Credit Option-Adjusted Spreads and Yields

**Series:** Investment grade and high-yield corporate debt spreads and yields

**Horizon:** January 1, 2007 - March 14, 2008

**Description:** Investment grade and high-yield debt option-adjusted spreads widened while yields on high-yield debt and investment grade debt rose.

Source: Bloomberg

### Middle panel

(7)

**Title:** Global Credit Default Swap Spreads Widen

**Series:** ITRAXX Crossover Series 7 and Baa CDS spread

**Horizon:** March 1, 2007 - March 14, 2008

**Description:** ITRAXX Crossover Series 7 spread and Baa CDS spread have continued to widen.

Source: Bloomberg

### Bottom panel

(8)

**Title:** U.S. Equity Indices Decline

**Series:** S&P 500 index, Nasdaq index, and S&P 500 financials index

**Horizon:** August 1, 2007 - March 17, 2008

**Description:** Financial underperforms against U.S. equity indices.

Source: Bloomberg

## Page 4

### Top panel

(9)

**Title:** Bank Term Funding Pressures Revive: One-Month LIBOR - OIS Spread

**Series:** Spreads between one-month Libor rates and one-month interest rate swap rates for U.S., UK, and Euro-Area

**Horizon:** August 1, 2007 - March 17, 2008

**Description:** The spreads between one-month Libor rates and one-month interest rate swap rates for U.S., UK, and Euro-Area have risen.

Source: Bloomberg

## Middle panel

(10)

**Title:** Three-Month LIBOR - OIS Spread

**Series:** Spreads between three-month Libor rate and three-month interest rate swap rates for U.S., UK, and Euro-Area

**Horizon:** August 1, 2007 - March 17, 2008

**Description:** The spreads between three-month Libor rate and three-month interest rate swap rates for U.S., UK, and Euro-Area have risen.

Source: Bloomberg

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### Top panel

#### (11) Federal Reserve Term Auction Facility Results

Federal Reserve Term Auction Facility:

Auction Settlement	Term	Amount	Minimum Bid Rate	Stop-out Rate	Propositions	Bid/Cover	Bidders
12/20/2007	28 Days	\$20 b	4.17%	4.65%	\$61.6 b	3.08	93
12/27/2007	35 Days	\$20 b	4.15%	4.67%	\$57.7 b	2.88	73
1/17/2008	28 Days	\$30 b	3.88%	3.95%	\$55.5 b	1.85	56
1/31/2008	28 Days	\$30 b	3.10%	3.12%	\$37.5 b	1.25	52
2/14/2008	28 Days	\$30 b	2.86%	3.01%	\$58.4 b	1.95	66
2/28/2008	28 Days	\$30 b	2.81%	3.08%	\$68.0 b	2.27	72
3/13/2008	28 Days	\$50 b	2.39%	2.80%	\$92.6 b	1.85	82

Source: Federal Reserve Board

### Bottom panel

(12)

**Title:** Composition of Federal Reserve's Balance Sheet

**Series:** Federal Reserve's permanent purchases, term auction facility, FX swaps, long-term RPS, TSLF, term discount window borrowing, single-tranche repo, and short-term RPs

**Horizon:** July 1, 2007 - April 30, 2008

**Description:** Composition of Federal Reserve's balance sheet changes as it introduces new policy actions.

\*RPs with an original maturity of at least 7 days are long-term.

Note: The sum of all components equals net autonomous factors plus reserve balances

Source: Federal Reserve Bank of New York

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### Top panel

(13)

**Title:** Commodity Prices Continue to Rise

**Series:** GSCI spot, energy, agriculture, and industrial metals indices

**Horizon:** January 1, 2007 - March 17, 2008

**Description:** GSCI spot, energy, agriculture, and industrial metals indices continue to rise.

Source: Bloomberg

**Middle panel**

(14)

**Title:** Dollar Weakens

**Series:** Yen-USD, Euro-USD, and broad trade-weighted dollar

**Horizon:** January 1, 2006 - March 17, 2008

**Description:** Since mid-June 2007, the U.S. dollar has softened against the Euro and Japanese Yen. Consistent with this, the broad trade-weighted dollar has also been declining.

Source: Bloomberg and Federal Reserve Board

**Bottom panel**

(15)

**Title:** Chinese Yuan 12-Month Implied Appreciation

**Series:** Chinese Yuan 12-Month implied appreciation

**Horizon:** January 1, 2007 - March 17, 2008

**Description:** Chinese Yuan 12-Month implied appreciation increases.

Source: Reuters

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**Top panel**

(16)

**Title:** TIPS Implied Average Rate of Inflation: 5-10 Year Horizon

**Series:** Federal Reserve Board's 5-10 Year horizon TIPS inflation compensation and Barclays' 5-10 Year horizon TIPS inflation compensation

**Horizon:** August 1, 2007 - March 14, 2008

**Description:** TIPS inflation compensation over a 5-10 year horizon has increased significantly since the December FOMC meeting as measured by both the Federal Reserve Board and Barclays. Recently, TIPS inflation compensation over a 5-10 year horizon has declined modestly.

Source: Federal Reserve Board and Barclays Capital

**Middle panel**

(17)

**Title:** Fed Funds Futures Curve Shifts Down

**Series:** Fed funds futures curve as of 12/10/2007, 1/29/2008, and 3/17/2008

**Horizon:** December 10, 2007 - March 17, 2008

**Description:** The fed funds futures curve has shifted lower since the January FOMC meeting.

Source: Bloomberg

## **Bottom panel**

(18)

**Title:** Eurodollar Futures Curve Also Shifts Lower

**Series:** Eurodollar futures curve as of 12/10/2007, 1/29/2008, and 3/17/2008

**Horizon:** December 10, 2007 - March 17, 2008

**Description:** The Eurodollar futures curve has steepened and shifted lower since the January FOMC meeting.

Source: Bloomberg

## **APPENDIX: Reference Exhibits**

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#### **Top panel**

(19)

**Title:** Implied Volatility Increases

**Series:** VIX index, MOVE index, 1-month Euro-Dollar volatility index, and 1-month Dollar-Yen volatility index

**Horizon:** January 1, 2007 - March 17, 2008

**Description:** During the intermeeting period, implied volatility across asset classes has increased.

Source: Bloomberg

#### **Middle panel**

(20)

**Title:** Treasury Yield Curve Shifts Lower and Continues to Steepen

**Series:** Constant maturity Treasury yield curve as of 12/11/2007, 1/29/2008, and 3/17/2008

**Horizon:** December 11, 2007 - March 17, 2008

**Description:** The Treasury yield curve has shifted lower and steepened since the last FOMC meetings.

Source: Bloomberg

#### **Bottom panel**

(21)

**Title:** 10-Year Treasury Inflation Protected and Nominal Treasury Yields

**Series:** 10-Year nominal Treasury yield and 10-Year inflation protected Treasury yield

**Horizon:** January 1, 2007 - March 17, 2008

**Description:** Both nominal and inflation protected Treasury yields have declined since the last FOMC meeting.

Source: Bloomberg

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#### **Top panel**

(22)

**Title:** GC Repo Market

**Series:** GC Treasury, agency, and agency MBS repo rates

**Horizon:** January 1, 2007 - March 17, 2008

**Description:** Since November 2007, GC Treasury repo rates have traded with a wider spread to GC agency and agency MBS repo.

Source: Federal Reserve Bank of New York

### **Middle panel**

(23)

**Title:** Probability Distribution on Eurodollar Futures Contract

**Series:** Probability distribution on Eurodollar futures contract as of 1/29/2008 and 3/14/2008

**Horizon:** January 29, 2008 - March 14, 2008

**Description:** Since the January FOMC meeting, the probability of a policy rate cut has increased.

Source: CME Options

### **Bottom panel**

(24)

**Title:** Probabilities for Policy Rate Outcomes for March FOMC Meeting

**Series:** Probabilities for a 2.00, 2.25, 2.50, or 2.75 percent target rate at March FOMC meeting

**Horizon:** February 1, 2008 - March 14, 2008

**Description:** In the days leading up to the FOMC meeting, there was an increase in probabilities for a 2.00 target rate at the March 18 FOMC meeting.

Source: Cleveland Fed

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### **Top panel**

(25)

**Title:** Distribution of Expected Policy Target Among Primary Dealers Prior to March 18 FOMC Meeting

**Series:** Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 3/10/2008

**Horizon:** 2008:Q1 - 2009:Q4

**Description:** There was less dispersion regarding where dealers expect the policy rate to be in the near term as compared to the January 2008 policy survey. Dealers on average expect higher rates than what is currently priced into Eurodollar futures for 2008.

Source: Dealer Policy Survey

### **Middle panel**

(26)

**Title:** Distribution of Expected Policy Target Among Primary Dealers Prior to January 29-30 FOMC Meeting

**Series:** Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 1/23/2008

**Horizon:** 2008:Q1 - 2009:Q4

**Description:** Compared to the March policy survey, there is more dispersion of policy rate expectation for 2008 and 2009.

## Appendix 2: Materials used by Mr. Madigan

### Material for FOMC Briefing on Monetary Policy Alternatives

Brian Madigan

March 18, 2008

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

**Table 1:  
Alternative Language for the March 18, 2008 FOMC Announcement**

March 18, 2008

[Note: In Appendix 2, Table 1, strong emphasis (bold) has been added to indicate underlined red text in the original document. Emphasis (italic or strike-through) indicates underlined blue text or strike-through blue text (respectively) in the original document. Exception: On the first row of Rationale under Alternative D, emphasis indicates underlined normal text in the original document.]

	Alternative A	Alternative B	Alternative C	Alternative D
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to lower its target for the federal funds rate <b>75</b> basis points to <b>2-¼</b> percent.	The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to <b>2-½</b> percent.	The Federal Open Market Committee decided today to lower its target for the federal funds rate <b>25</b> basis points to <b>2-¾</b> percent.	The Federal Open Market Committee decided today to <b>keep</b> its target for the federal funds rate <b>at 3</b> percent.
<b>Rationale</b>	2. <b>Recent information indicates that the outlook for economic activity has weakened further</b> and that downside risks persist. <b>Growth in consumer spending has slowed and labor markets have softened.</b> Financial markets remain under considerable stress, <b>and the tightening of credit conditions and the deepening of the housing contraction are likely to continue to weigh on economic growth</b> over the next few quarters.	<b>Recent information indicates that the outlook for economic activity has weakened further</b> and that downside risks persist. <b>Growth in consumer spending has slowed and labor markets have softened.</b> Financial markets remain under considerable stress, <b>and the tightening of credit conditions and the deepening of the housing contraction are likely to continue to weigh on economic growth</b> over the next few quarters.	<b>Growth in consumer spending has slowed and labor markets have softened.</b> Financial markets remain under considerable stress, <b>and the tightening of credit conditions and the deepening of the housing contraction are likely to continue to weigh on economic growth.</b> Recent policy actions should help to promote moderate growth over time, <b>but</b> downside risks to growth remain.	<b>Growth in consumer spending has slowed,</b> labor markets <b>have softened,</b> and financial markets remain under considerable stress. <b>Although</b> downside risks to growth remain, <b>recent policy actions</b> should help to promote moderate growth over time.
	3. <b>Inflation has been elevated, and some measures indicators of inflation expectations have risen.</b> The Committee expects inflation to moderate in coming quarters, <b>reflecting a projected leveling-out of energy and other commodity prices and an easing of pressures on resource utilization.</b> Still, <b>uncertainty about the inflation outlook has increased.</b> It will be	<b>Inflation has been elevated, and some measures indicators of inflation expectations have risen.</b> The Committee expects inflation to moderate in coming quarters, <b>reflecting a projected leveling-out of energy and other commodity prices and an easing of pressures on resource utilization.</b> Still, <b>uncertainty about the inflation outlook has increased.</b> It will be	<b>Inflation has been elevated, and upward pressure on inflation could result from several factors, including further increases in energy, commodity, and other import prices.</b> Although the Committee expects inflation to moderate in coming quarters, <b>the upside risks to the outlook for inflation have increased.</b> The Committee will continue to monitor inflation developments carefully.	<b>Inflation has been elevated, and upward pressure on inflation could result from several factors, including further increases in energy, commodity, and other import prices.</b> Although the Committee expects inflation to moderate in coming quarters, <b>the upside risks to the outlook for inflation have increased.</b> The Committee will continue to monitor inflation developments carefully.



	Alternative A	Alternative B	Alternative C	Alternative D
	necessary to continue to monitor inflation developments carefully.	necessary to continue to monitor inflation developments carefully.		
<b>Assessment of Risk</b>	4. Today's policy action, combined with those taken earlier, <i>including measures to foster market liquidity</i> , should help to promote moderate growth over time and to mitigate the risks to economic activity. However, <del>the Committee judges that the</del> downside risks to growth <del>remain outweigh the upside risks to inflation.</del> The Committee will act in a timely manner as needed to <b>promote sustainable economic growth and price stability.</b>	Today's policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks.	<b>The Committee judges that the risks to growth outweigh the risks to inflation, particularly in light of stresses in financial markets.</b> The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address <b>the evolving</b> risks.	The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to <b>promote price stability and sustainable economic growth.</b>

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