

Meeting of the Federal Open Market Committee September 16, 2008 Presentation Materials -- Text Version

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

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Appendix 1: Materials used by Mr. Dudley

Class II FOMC - Restricted FR

Page 1

Top panel

(1)

Title: Investment Bank Equity Prices

Series: Equity Prices for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch

Horizon: August 1, 2007 - September 15, 2008

Description: Equity prices for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch decline. Lehman Brothers underperforms compared to the other major investment banks.

Source: Bloomberg

Middle panel

(2)

Title: Investment Bank CDS Spreads

Series: Credit Default Swap Spreads for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch

Horizon: August 1, 2007 - September 15, 2008

Description: Credit default swap spreads for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch widen.

Source: Markit

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(3)

Title: Large Commercial Bank Equity Prices

Series: Equity Prices for JPMorgan Chase, Citibank, and Bank of America

Horizon: August 1, 2007 - September 15, 2008

Description: Equity prices for JPMorgan Chase, Citibank, and Bank of America remain relatively unchanged since the August FOMC meeting.

Source: Bloomberg

Middle panel

(4)

Title: Large Commercial Bank CDS Spreads

Series: Credit Default Swap Spreads for JPMorgan Chase, Citigroup, and Bank of America

Horizon: August 1, 2007 - September 15, 2008

Description: Credit default swap spreads for JPMorgan Chase, Citigroup, and Bank of America widen.

Source: Markit

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(5)

Title: Regional Bank Equity Prices

Series: Equity Prices for Washington Mutual, Wachovia, and Wells Fargo

Horizon: August 1, 2007 - September 15, 2008

Description: Washington Mutual's equity price declines during the intermeeting period, while Wells Fargo's equity price increases and Wachovia's equity price remains relatively unchanged.

Source: Bloomberg

Middle panel

(6)

Title: Regional Bank CDS Spreads

Series: Credit Default Swap Spreads for Washington Mutual, Wachovia, and Wells Fargo

Horizon: August 1, 2007 - September 15, 2008

Description: The credit default swap spread for Washington Mutual widened substantially during the intermeeting period.

Source: Markit

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(7)

Title: Agency Debt Spreads

Series: Fannie Mae 5- and 10-Year Debt Spreads and Freddie Mac 5- and 10-Year Debt Spreads

Horizon: March 1, 2008 - September 15, 2008

Description: Agency debt spreads decline during the intermeeting period.

Source: Bloomberg

Middle panel

(8)

Title: Mortgage Option Adjusted Spreads

Series: Mortgage Option Adjusted Spreads to Treasury yield, Agency Debt, and Interest Rate Swap

Horizon: January 1, 2007 - September 12, 2008

Description: Mortgage option adjusted spreads decline during the intermeeting period.

Source: Lehman Brothers

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(9)

Title: Fannie Mae and Freddie Mac Equity Prices

Series: Equity Prices for Fannie Mae and Freddie Mac

Horizon: August 1, 2007 - September 15, 2008

Description: Equity prices for Fannie Mae and Freddie Mac continue to decline.

Source: Bloomberg

Middle panel

(10)

Title: Fannie Mae and Freddie Mac CDS Spreads

Series: Senior and Subordinated Credit Default Swap Spreads for Fannie Mae and Freddie Mac

Horizon: August 1, 2007 - September 12, 2008

Description: Subordinated credit default swap spreads for Fannie Mae and Freddie Mac widened since the August FOMC meeting, while senior credit default swap spreads for Fannie Mae and Freddie Mac narrowed modestly during the intermeeting period.

Source: Markit

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(11) Changes in Financial Conditions

1989-2008

Changes Across Monetary Policy Easing Cycles*

	2007-2008	2001-2002	1989-1992
Fed Funds Target Rate (bps)	-325	-525	-675
Interest Rate Levels (bps)			
3-Month LIBOR	-254	-529	-694
30-Year Fixed Conforming Mortgage	-76	-152	-301
Moody's Baa-Rated Corporate Index	52	-66	-199
Interest Rate Swap Spreads (bps)			
3-Month LIBOR - OIS	75	-12	-2
30Y Fixed Mortgage - 5Y Treasury	85	64	76

Changes Across Monetary Policy Easing Cycles*

	2007-2008	2001-2002	1989-1992
Moody's Baa Corporate Index - 10Y Treasury	154	60	71
Exchange Rate (%)			
Nominal Trade-Weighted Dollar	-2	-8	-17
Household Wealth (%)			
S&P 500	-14	-29	35
Case-Shiller 10-City Home Price Index	-17	25	-3
Lending Standards (%)**			
Change in Net % Tightening	58	-6	-30

* Dates for the cycles are: 09/2007-present, 01/2001-11/2002, and 06/1989-09/1992. All data is end-of-month. [Return to table](#)

** Lending standards are the simple average of the net % of respondents to the Senior Loan Officer Survey reporting tightening standards on C&I, commercial real estate, mortgage, credit card, and other consumer loans. Changes for 1989-1994 are based on a start-date of July 1990, when the data is first available. [Return to table](#)

Source: Federal Reserve Bank of New York

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(12)

Title: U.S. Equity Indices

Series: S&P 500 Index, Nasdaq Index, and S&P 500 Financials Index

Horizon: August 1, 2007 - September 15, 2008

Description: U.S. equity indices are relatively unchanged during the intermeeting period.

Source: Bloomberg

Middle panel

(13)

Title: Global Credit Default Swap Spreads

Series: ITRAXX Crossover Series 7 and Baa CDS spread

Horizon: August 1, 2007 - September 12, 2008

Description: ITRAXX Crossover and Baa CDS spread widen since the August FOMC meeting.

Source: Bloomberg, Lehman Brothers

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(14)

Title: One-Month Libor-OIS Spreads

Series: Spreads between One-Month Libor Rates and One-Month Overnight Index Swap Rates for U.S., U.K., and Euro Area

Horizon: July 1, 2007 - September 15, 2008

Description: The spread between the one-month Libor rate and the one-month overnight index swap rate widens in the U.S., while remaining relatively unchanged in the U.K. and the Euro area.

Source: Bloomberg

Middle panel

(15)

Title: Three-Month Libor-OIS Spreads

Series: Spreads between Three-Month Libor Rate and Three-Month Overnight Index Swap Rates for U.S., U.K., and Euro Area

Horizon: July 1, 2007 - September 15, 2008

Description: Spreads between three-month Libor rates and three-month overnight index swap rates widen in the U.S., U.K. and Euro area.

Source: Bloomberg

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(16)

Title: TAF Auction Results

Series: TAF Bid-to-Cover Ratio and Spread between the TAF Stop-Out Rate and Minimum Bid Rate

Horizon: December 20, 2007 - September 11, 2008

Description: The spread between the TAF stop-out rate and the minimum bid rate is wider for the 84-day TAF than for the traditional 28-day TAF.

Source: Federal Reserve Board

Middle panel

(17) Federal Reserve Term Securities Lending Facility Options Program Results

August 27, 2008 - September 10, 2008

Auction Date	Auction Settlement	Term	Collateral	Amount	Minimum Fee Rate	Stop-out Rate	Propositions	Bid/Cover
8/27/2008	9/25/2008	7 Days	Schedule 2	\$50 b	0.01%	0.02%	\$51.0 b	2.04
9/10/2008	9/25/2008	7 Days	Schedule 2	\$50 b	0.01%	0.03%	\$54.5 b	2.18

Source: Federal Reserve Bank of New York

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(18)

Title: Commodity Prices

Series: GSCI Spot, Energy, Agriculture, and Industrial Metals Indices

Horizon: January 1, 2008 - September 15, 2008

Description: Commodity prices decline since the August FOMC meeting.

Source: Bloomberg

Middle panel

(19)

Title: Dollar Appreciates Against Euro and Great British Pound

Series: Yen-USD, Euro-USD, and Great British Pound-USD

Horizon: January 1, 2008 - September 15, 2008

Description: The U.S. dollar appreciates against the Euro and Great British Pound, while depreciating against the Yen.

Source: Bloomberg

Bottom panel

(20)

Title: Dollar Strengthens Against Euro Despite Worsening Interest Rate Differentials

Series: Euro-USD and Spread between the December 2009 3-Month Euribor Rate and the December 2009 3-Month Eurodollar Futures Rate

Horizon: January 1, 2007 - September 15, 2008

Description: The dollar has appreciated against the Euro despite the widening spread between Euribor and Eurodollar futures.

Source: Bloomberg

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(21)

Title: Correlation Between Weekly Changes in S&P GSCI Index and the Trade-Weighted Dollar

Series: Six-Month Rolling Correlation of Percent Changes in the Weekly Average of Daily Closing Prices of the S&P GSCI Spot Index and the Trade-Weighted Dollar Spot Index, and the One-Year Moving Average of this Correlation

Horizon: January 1, 1988 - September 15, 2008

Description: The correlation between the changes in the S&P GSCI Index and the trade-weighted dollar has been increasing since the beginning of 2002.

Source: Bloomberg

Middle panel

(22)

Title: Spread Between Nominal and Inflation Protected Treasury Yields

Series: Five- and Ten-Year Spreads between Nominal and Inflation Protected Treasury Yields

Horizon: January 1, 2007 - September 15, 2008

Description: The spreads between 5- and 10-year nominal and inflation-protected Treasury yields have been declining since the beginning of July 2008.

Source: Bloomberg

Bottom panel

(23)

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: January 1, 2007 - September 12, 2008

Description: TIPS inflation compensation over a 5-10 year horizon has declined since the August FOMC meeting as measured by both the Federal Reserve Board and Barclays.

Source: Federal Reserve Board, Barclays Capital

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(24)

Title: Fed Funds Futures Curves

Series: Fed funds futures curves as of 6/24/2008, 8/4/2008, and 9/15/2008

Horizon: June 24, 2008 - September 15, 2008

Description: The fed funds futures curve has shifted down and flattened since the August FOMC meeting.

Source: Bloomberg

Middle panel

(25)

Title: Eurodollar Futures Curves

Series: Eurodollar futures curves as of 6/24/2008, 8/4/2008, and 9/15/2008

Horizon: June 24, 2008 - September 15, 2008

Description: The Eurodollar futures curve has shifted lower since the August FOMC meeting.

Source: Bloomberg

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(26)

Title: Probabilities for Policy Rate Outcomes: September FOMC meeting

Series: Probabilities for a 1.75, 2.00, 2.25, 2.50, or 2.75 percent target rate at the September FOMC meeting

Horizon: May 1, 2008 - September 11, 2008

Description: At the time of the September 16th FOMC meeting, options on fed funds futures suggested a 2.00 percent target rate following the September 16th FOMC meeting was the most likely outcome.

Source: Federal Reserve Bank of Cleveland

Middle panel

(27)

Title: Probabilities for Policy Rate Outcomes: October FOMC meeting

Series: Probabilities for a 1.75, 2.00, 2.25, 2.50, or 2.75 percent target rate at the October FOMC meeting

Horizon: August 1, 2008 - September 11, 2008

Description: At the time of the September 16th FOMC meeting, options on fed funds futures suggested a 2.00 percent target rate following the October 28-29 FOMC meeting was the most likely outcome.

Source: Federal Reserve Bank of Cleveland

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Top panel (28)

Title: Distribution of Expected Policy Target Rate Among Primary Dealers Prior to September 16 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 9/8/2008

Horizon: 2008:Q3 - 2009:Q4

Description: On average, primary dealer economists' policy rate expectations are similar to what is currently priced into Eurodollar futures.

Source: Dealer Policy Survey

Middle panel (29)

Title: Distribution of Expected Policy Target Rate Among Primary Dealers Prior to August 5 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 7/28/2008

Horizon: 2008:Q3 - 2009:Q4

Description: On average, primary dealer economists expect lower policy rates than what is currently priced into Eurodollar futures.

Source: Dealer Policy Survey

APPENDIX: Reference Exhibits

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Top panel (30)

Title: Weekly Changes in Aggregate FIMA Holdings of Agency MBS

Series: Weekly Changes in Aggregate FIMA Holdings of Agency MBS for Ginnie Mae, Freddie Mac, and Fannie Mae

Horizon: September 5, 2007 - September 10, 2008

Description: Aggregate FIMA holdings of agency MBS for Freddie Mac and Fannie Mae have not grown since July 2008.

Source: Federal Reserve Bank of New York

Middle panel (31)

Title: Global Equity Indices

Series: DJ Euro Stoxx, Japan Topix, and MSCI Emerging Markets

Horizon: August 1, 2007 - September 15, 2008

Description: Global equity indices decline modestly. Emerging markets underperform Japanese and Euro area equity markets during the intermeeting period.

Source: Bloomberg

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(32)

Title: Forward Three-Month Libor-OIS Spreads

Series: Forward spreads between three-month Libor rate and three-month overnight index swap rates in the U.S. for the 1-2 Year Horizon and the 2-3 Year Horizon

Horizon: July 1, 2007 - September 12, 2008

Description: The spreads between the three-month Libor rate and the three-month overnight index swap rate over 1-2 year and 2-3 year horizons continue to rise.

Source: Reuters

Middle panel

(33)

Title: U.S. Dollar Net Long Positioning by Non-Commercial Accounts Increases*

Series: U.S. Dollar Net Long Positioning by Non-Commercial Accounts

Horizon: January 1, 2007 - September 1, 2008

Description: U.S. dollar net long positioning by non-commercial accounts increases.

* Calculated as (\$ amount of non-commercial long - short positioning) / (\$ amount of total open interest). USD compared against the following currencies: EUR, JPY, GBP, CHF, CAD, MXN, AUD [Return to text](#)

Source: Bloomberg, Chicago Mercantile Exchange

Appendix 2: Materials used by Mr. Madigan

Material for **FOMC Briefing on Monetary Policy Alternatives and Trial Run Survey Results**

Brian Madigan

September 16, 2008

Class I FOMC - Restricted Controlled (FR)

Exhibit 1

Table 1: Alternative Language for the September 2008 FOMC Announcement

September 15, 2008

[Note: In Appendix 2, Table 1, strong emphasis (bold) has been added to indicate underlined red text in the original document. Emphasis (italic) indicates underlined blue text in the original document.]

	August FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to	The Federal Open Market Committee decided today to	The Federal Open Market Committee decided today to	The Federal Open Market Committee decided today to

	August FOMC	Alternative A	Alternative B	Alternative C
	keep its target for the federal funds rate at 2 percent.	<i>lower</i> its target for the federal funds rate <i>25 basis points to 1¾</i> percent.	keep its target for the federal funds rate at 2 percent.	raise its target for the federal funds rate 25 basis points to 2¼ percent.
Rationale	2. Economic activity expanded in the second quarter, partly reflecting growth in consumer spending and exports. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.	<i>Strains in</i> financial markets <i>have increased significantly</i> and labor markets have weakened further. <i>Overall economic growth appears to have slowed considerably,</i> and tight credit conditions and the ongoing housing contraction are <i>among the factors</i> likely to weigh on growth over the next few quarters. <i>Today's policy action,</i> combined with <i>those taken earlier,</i> including the ongoing measures to foster market liquidity, should help to promote moderate economic growth over time.	<i>Economic growth appears to have slowed recently,</i> partly reflecting a softening of household spending. In addition, <i>strains in</i> financial markets <i>have intensified</i> and labor markets have weakened further. Tight credit conditions, the ongoing housing contraction, <i>and some slowing in export growth</i> are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.	<i>Economic growth appears to have slowed recently,</i> partly reflecting a softening of household spending. In addition, <i>strains in</i> financial markets <i>have intensified</i> and labor markets have weakened further. Tight credit conditions, the ongoing housing contraction, <i>and some slowing in export growth</i> are likely to weigh on economic growth over the next few quarters. Nonetheless, the accommodative stance of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.
	3. Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities, and some indicators of inflation expectations have been elevated. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.	Inflation has been high, but the Committee expects that the recent decline in energy and other commodity prices and increased slack in resource utilization will foster a moderation of inflation later this year and next year. Nevertheless, the inflation outlook remains highly uncertain.	Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.	Inflation has remained high, and some indicators of inflation expectations have been elevated. Although the Committee expects inflation to moderate later this year and next year, the possibility that inflation may fail to decline as anticipated is of significant concern.
Assessment of Risk	4. Although downside risks to growth remain, the upside risks to inflation are also of significant concern to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.	The downside risks to growth <i>have intensified,</i> but the upside risks to inflation <i>remain a concern</i> to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.	<i>The</i> downside risks to growth <i>and</i> the upside risks to inflation are <i>both of</i> significant concern to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.	The Committee took this action to provide additional assurance that inflation will abate as desired. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Exhibit 2 Trial Run of Longer-Term Projections

Top panel Survey Options

1. I prefer that the trial run encompass both Alternative 1 and Alternative 2.
2. I prefer that the trial run encompass only Alternative 1 (projections of long-run values, say 5 to 6 years ahead, absent further shocks).
3. I prefer that the trial run encompass only Alternative 2 (steady-state values).
4. I agree that a trial run should be conducted but have no preference regarding the two alternatives.
5. I propose that the following alternative approach to longer-term projections be considered (please explain)
6. Other (please explain).

**Bottom panel
Survey Responses**

Option	Number of participants
#1	7
#2	5
#3	2
#4	1
#5	1
#6	1

Appendix 3: Materials used by Chairman Bernanke

FEDERAL RESERVE press release

[Seal of the Board of Governors of the Federal Reserve System]

For immediate release

September 16, 2008

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Strains in financial markets have increased significantly and labor markets have weakened further. Economic growth appears to have slowed recently, partly reflecting a softening of household spending. Tight credit conditions, the ongoing housing contraction, and some slowing in export growth are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.

The downside risks to growth and the upside risks to inflation are both of significant concern to the Committee. The Committee will monitor economic and financial market developments closely and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were:

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