Accessible Version

Meeting of the Federal Open Market Committee
August 11-12, 2009 Presentation Materials

Presentation Materials (PDF)

Pages 150 to 165 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for **FOMC Presentation: *Financial Market Developments and Desk Operations***
Brian Sack
August 12, 2009

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel
(1)

Title: US Equity (S&P 500)
Series: Standard & Poor's 500 Index
Horizon: August 1, 2008 - August 10, 2009
Description: S&P 500 rises after the June FOMC meeting.

June 24: FOMC

Source: Bloomberg

Top-right panel
(2)

Title: Proportion of S&P 500 Companies Exceeding Consensus Earnings Estimates
Series: Percent of S&P constituents reporting positive surprise; average surprise since 1991
Horizon: Q2 1995 - Q2 2009
Description: Positive surprise in Q2 2009 (approximately 76%) exceeds average (approximately 62%).

Source: Reuters, Bloomberg

Middle-left panel
(3)

Title: Equity Market Volatility (VIX)
Series: VIX equity implied volatility
Horizon: August 1, 2008 - August 10, 2009
Description: Equity market implied volatility decreasing.

Source: Bloomberg

Middle-right panel
(4)

Title: Money Market Mutual Fund Assets (Government Funds)
Series: Money market mutual funds holding Treasury, Agency, and Repo assets
Horizon: August 1, 2007 - August 10, 2009
Description: Money market funds flow out of government funds.

Source: iMoneyNet

Bottom-left panel
(5)

Title: Corporate Debt Spreads
Series: High Yield and Investment Grade corporate debt spreads
Horizon: August 1, 2008 - August 10, 2009
Description: Corporate debt spreads narrow.

Source: Bank of America

Bottom-right panel
(6)

Title: USD and Emerging Market Equities
Series: US Broad Dollar Index, MSCI Emerging Market Index
Horizon: August 1, 2008 - August 10, 2009
Description: US broad dollar decreases while emerging market equity index increases.

Source: Federal Reserve Board of Governors, Bloomberg

Exhibit 2

Top-left panel
(7)

Title: US Equity Indices for Financial Firms
Series: Large Bank Index, Regional Bank Index
Horizon: August 1, 2008 - August 10, 2009
Description: US financial bank indices increase.

Source: Bloomberg

Top-right panel
(8)

Title: Commercial Bank CDS Spreads
Series: CDS spreads for JP Morgan Chase, Citigroup, Bank of America, and Wells Fargo
Horizon: August 1, 2008 - August 10, 2009
Description: Commercial bank CDS spreads narrow.

Source: Markit

Middle-left panel
(9)

Title: US Libor-OIS Spreads
Series: Spreads between USD Libor and OIS for 1- and 3-Month tenors
Horizon: August 1, 2007 - August 10, 2009
Description: US Libor-OIS spreads narrow.

Source: Bloomberg

Middle-right panel (10)

Title: Bank Debt Spreads
Series: Non-guaranteed and FDIC-guaranteed bank debt spreads
Horizon: December 1, 2008 - August 10, 2009
Description: Non-guaranteed bank debt spread narrows.

*Indices comprised of debt from Bank of America, Goldman Sachs, JPMC, Citigroup, and GE with maturities between 2010 and 2012. Spreads are to Treasuries of comparable maturity.

Source: Bloomberg

Bottom-left panel (11)

Title: AAA-Rated Consumer ABS Spreads
Series: 3-Year Prime Auto and 3-Year Credit Card spread
Horizon: August 1, 2008 - August 10, 2009
Description: ABS spreads narrow.

Vertical lines indicate timing of "TALF announced" and "First TALF subscription".

Source: JPMorgan Chase

Bottom-right panel (12)

Title: CMBS Spreads
Series: CMBS spreads for Junior, Mezzanine, and Super Senior tranches
Horizon: August 1, 2008 - August 10, 2009
Description: CMBS spreads narrow.

Vertical lines indicate timing of "CMBS added to TALF" and "PPIP details announced".

Source: JPMorgan Chase

Exhibit 3

Top-left panel (13)

Title: Treasury Yields
Series: Treasury yields for the 2-Year, 5-Year, 10-Year, and 30-Year securities
Horizon: August 1, 2008 - August 10, 2009
Description: Treasury yields increase.

Source: Bloomberg

Top-right panel
(14)

Title: Implied Federal Funds Rate
Series: Implied Fed Funds rate for 6/23/09 and 8/7/09 through 2012
Horizon: 6/23/09, 8/7/09
Description: Implied Fed Funds rate increases in 2010.

Source: Bloomberg

Middle-left panel
(15)

Title: Average Probability of Fed Funds Rate 12 Months Ahead
Series: Dealer policy survey probability
Description: Dealers predict about 50% chance Fed Funds rate will stay at 0 - .25% for the next 12 months.

Source: Dealer Policy Survey

Middle-right panel
(16)

Title: Average Probability of Fed Funds Rate 18 Months Ahead
Series: Dealer policy survey probability
Description: Dealers predict about 25% chance that Fed Funds rate will stay at 0 - .25% for the next 18 months.

Source: Dealer Policy Survey

Bottom-left panel
(17)

Title: Breakeven Inflation Rates
Series: 5-Year Spot Breakeven Inflation Rate, 5-Year 5-Year Forward Breakeven Inflation Rate
Horizon: August 1, 2007 - August 10, 2009
Description: Breakeven inflation rates increase.

Source: Barclays

Bottom-right panel
(18)

Title: Probability Distribution of CPI Inflation Rate in 2014 - 2019
Series: Dealer policy survey probability for August and June meetings
Description: Dealers predict thirty-five percent chance of inflation rate of 2 - 2.5%.

Source: Dealer Policy Survey

Exhibit 4

Top-left panel
(19)

Title: Monthly Pace of Large-Scale Asset Purchases
Series: Federal Reserve monthly purchases of Agency Debt, Agency MBS and Treasury securities

Horizon: January 2009 - July 2009
Description: Monthly pace of large-scale asset purchases slows.

Source: Federal Reserve Bank of New York

Top-right panel
(20)

Title: Dispersion of Treasury Yields (Fitting Error of Nominal Yield Curve)
Series: Fitting error of nominal yield curve calculated from Treasury securities with maturities from 2 to 10 years
Horizon: August 1, 2001 - August 10, 2009
Description: Dispersion of Treasury yields decreases.

Source: Federal Reserve Bank of New York

Middle-left panel
(21)

Title: Weekly Treasury Cash Volumes
Series: FR2004 Weekly Treasury Cash Volumes and 3-Month Moving Average
Horizon: August 1, 2001 - August 10, 2009
Description: Weekly Treasury cash volumes decrease.

Source: FR2004

Middle-right panel
(22) Large-Scale Asset Purchases Program Size Relative to Market

	Total Size ($ bn)	% Current Stock	% Net Supply
Treasury	300	8%	39%
Agency Debt	200	36%	1000%
Mortgage	1250	28%	313%

Source: Federal Reserve Bank of New York, JP Morgan Chase, Barclays Capital

Bottom-left panel
(23)

Title: Fixed-Rate Mortgage Spreads
Series: Mortgage-Backed Security Option Adjusted Spread, and Conforming Mortgage Spread to blended 5- and 10-Year Treasury yields
Horizon: August 1, 2000 - August 10, 2009
Description: Fixed-rate mortgage spreads narrow.

Source: Barclays Capital

Bottom-right panel
(24)

Title: Mortgage Spreads
Series: 3/1 ARM Spread to 2-Year Treasury, Conforming Spread to blended 5- and 10-Year Treasury
Horizon: August 1, 2000 - August 10, 2009
Description: Conforming spread narrows back to historical levels while 3/1 ARM spread remains high.

Source: Barclays Capital, Bloomberg

Exhibit 5

Top-left panel
(25)

Title: Balance Sheet Assets by Category
Series: Federal Reserve balance sheet assets categorized by All Other, Lending to Systemically Important Institutions, Short-Term Liquidity Facilities, Large-Scale Asset Purchases, and Legacy Treasuries
Horizon: August 1, 2008 - August 10, 2009
Description: Balance sheet composition shifts.

Source: Federal Reserve Bank of New York

Top-right panel
(26)

Title: Federal Reserve Short-Term Liquidity Facilities
Series: Outstanding amounts for Federal Reserve Primary Credit Facility, Primary Dealer Credit Facility, Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, Commercial Paper Funding Facility, Central Bank Liquidity Swaps, and Term Auction Facility
Horizon: August 1, 2008 - August 10, 2009
Description: Short-term liquidity facilities balance continues to decrease to about $400 billion, approximately 50% TAF, 20% central bank liquidity swaps, 20% CPFF, and 10% PCF.

Source: Federal Reserve Bank of New York

Middle panel
(27) Balance Sheet Baseline Scenario Forecast

Assets ($ Billions)		Projected	
	7/31/09	3/31/10	12/31/10
Liquidity Facilities	412	125	21
Support to Specific Institutions	104	79	71
TALF	31	159	155
MBS and Agency Debt Purchases	650	1402	1240
Treasury Purchases	230	300	290
Other Assets	95	125	125
Legacy Treasury Holdings	475	475	475
TOTAL	1997	2665	2221

Source: Federal Reserve Bank of New York

Appendix 2: Materials used by Mr. Madigan

Material for Briefing on **Monetary Policy Alternatives**
Brian Madigan
August 12, 2009

Class I FOMC - Restricted Controlled (FR)

June FOMC Statement

Information received since the Federal Open Market Committee met in April suggests that the pace of economic contraction is slowing. Conditions in financial markets have generally improved in recent months. Household spending has shown further signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Businesses are cutting back on fixed investment and staffing but appear to be making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve will buy up to $300 billion of Treasury securities by autumn. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

[Note: In the August FOMC Statement Alternatives, strong emphasis (bold) indicates bold red underlined text in the original document.]

August FOMC Statement - Alternative A

Information received since the Federal Open Market Committee met in **June** suggests that the pace of economic contraction **has abated significantly**. Conditions in financial markets have improved **somewhat further** in recent **weeks**. Household spending has**continued to show** signs of stabilizing but remains constrained by ongoing job losses,**sluggish income growth,** lower housing wealth, and tight credit. Businesses appear to**have made** progress in bringing inventory stocks into better alignment with sales but are **still** cutting back on fixed investment and staffing.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

With the anticipated economic recovery likely to be weak initially and inflation expectations well-anchored, the Committee has decided to provide additional monetary stimulus by increasing its purchases of Treasury securities to $450 billion, up from the previously announced amount of as much as $300 billion. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve **is in the process of purchasing** $1.25 trillion of agency mortgage -backed securities. **The Committee anticipates completing the full amounts of its purchases of Treasury and mortgage-backed securities by year-end. The Committee will also buy** up to $200 billion of agency debt by the end of this year. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. [The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. | **The Committee anticipates that economic conditions are likely to warrant maintaining the 0 to ¼ percent target range for the federal funds rate at least through mid-2010**].

August FOMC Statement - Alternative B

Information received since the Federal Open Market Committee met in **June** suggests that economic **activity** is **leveling out**. Conditions in financial markets have improved**somewhat further** in recent **weeks**. Household spending has **continued to** show signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **have made** progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in the context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgagebacked securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve **is in the process of buying** $300 billion of Treasury securities. **To promote a smooth transition in markets as its purchases of Treasury securities come to an end, the Committee has decided to gradually slow the pace of these transactions and expects them to be completed by the end of October.** The Committee will continue to evaluate the timing and overall amounts of its purchases of**agency debt and mortgage-backed** securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement - Alternative B'

Information received since the Federal Open Market Committee met in **June** suggests that economic **activity** is **leveling out**. Conditions in financial markets have improved**somewhat further** in recent **weeks**. Household spending has **continued to** show signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,**lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **have made** progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in the context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgagebacked securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve **is in the process of buying** $300 billion of Treasury securities. **To promote a smooth transition in markets as the current program of purchases of Treasury securities comes to an end, the Committee has decided to gradually slow the pace of these transactions and expects them to be completed by the end of October. The Committee is prepared to consider resuming its purchases of Treasury securities** in light of the evolving economic outlook and conditions in financial markets**, and it** will continue to evaluate the timing and overall amounts of its purchases of **agency debt and mortgage-backed** securities. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement - Alternative B (revised)

Information received since the Federal Open Market Committee met in **June** suggests that economic **activity is leveling out**. Conditions in financial markets have improved **further** in recent **weeks**. Household spending has **continued to** show signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **are** making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in the context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgagebacked securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve **is in the process of buying** $300 billion of Treasury securities. **To promote a smooth transition in markets as these purchases of Treasury securities are completed, the Committee has decided to gradually slow the pace of these transactions and anticipates that the full amount will be purchased by the end of October.** The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement - Alternative C

Information received since the Federal Open Market Committee met in **June** suggests that economic **activity is leveling out and that downside risks are diminishing**. Household spending has **continued to show** signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **have made**progress in bringing inventory stocks into better alignment with sales. **Meanwhile,** conditions in financial markets have improved **further** in recent **weeks**. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will continue to contribute to a gradual resumption of sustainable economic growth in a context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In view of the improved economic outlook, the Committee has judged that some reduction in overall monetary stimulus is appropriate. The Committee now expects that its purchases of agency mortgage-backed securities (MBS) and agency debt will cumulate to about $1 trillion and about $150 billion, respectively, somewhat less than the previously announced maximum amounts. The Federal Reserve **is nearing completion of its purchase of roughly** $300 billion of Treasury securities. **To promote a smooth transition in markets as its purchases of Treasury securities, agency debt, and agency MBS come to an end, the Committee has decided to gradually slow the pace of these transactions. Consistent with these adjustments, the Committee now expects that its purchases of Treasury securities will be completed by the end of October, and it continues to anticipate that its purchases of agency debt and MBS will be completed by the end of the year.** The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is carefully monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted. The Committee **now** anticipates that economic conditions are likely to warrant **maintenance of the current 0 to ¼ percent range for** the federal funds rate **at least through the end of this year**.

Table 1: Overview of Alternative Language for the August 11-12, 2009 FOMC Announcement

	June FOMC	August Alternatives		
		A	B / B' / B (revised)	C
Forward Guidance on Funds Rate Path				
	"for an extended period"	*same as in June* **or** "at least	"for an extended period"	"at least through the end of this year"

	June FOMC	August Alternatives				
		A	B	B'	B (revised)	C
		through mid-2010"				
Treasury Securities Purchases						
Total Amount	up to $300 billion	"full amount" of $450 billion	$300 billion			"roughly $300 billion"
Pace	-----	-----	pace will "gradually slow"			pace will "gradually slow"
Completion	by autumn	by year-end	by the end of October			by the end of October
Agency MBS Purchases						
Total Amount	up to $1.25 trillion	"full amount" of $1.25 trillion	up to $1.25 trillion			"will cumulate to about $1 trillion"
Pace	-----	-----	-----			pace will "gradually slow"
Completion	by year-end	by year-end	by year-end			by year-end
Agency Debt Purchases						
Total Amount	up to $200 billion	up to $200 billion	up to $200 billion			"will cumulate to… about $150 billion"
Pace	-----	-----	-----			pace will "gradually slow"
Completion	by year-end	by year-end	by year-end			by year-end
Evaluation of LSAP Timing and Overall Amounts						
	adjustments to all LSAPs will continue to be evaluated	adjustments to all LSAPs will continue to be evaluated	adjustments to agency debt and agency MBS will continue to be evaluated	"prepared to consider resuming" Treasury purchases; adjustments to agency debt and agency MBS will continue to be evaluated	adjustments to all LSAPs will continue to be evaluated	adjustments to all LSAPs will continue to be evaluated

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