

Accessible Version

Meeting of the Federal Open Market Committee November 2-3, 2010 Presentation Materials

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

Pages 211 to 238 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for

FOMC Presentation: *Financial Market Developments and Desk Operations*

Brian Sack
November 2, 2010

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel
(1)

Title: TIPS Yields

Series: Yields for 5-year and 10-year TIPS

Horizon: August 3, 2009 - October 29, 2010

Description: TIPS yields declined sharply since the last FOMC meeting.

A vertical line marks the FOMC meeting of September 21, 2010.

Source: Federal Reserve Board of Governors

Top-right panel
(2)

Title: Breakeven Inflation Rates

Series: Yields for 5-year and 10-year breakeven rates

Horizon: August 3, 2009 - October 29, 2010

Description: Breakeven inflation rates moved significantly higher during the intermeeting period.

Source: Federal Reserve Board of Governors

Middle-left panel
(3) *Changes in Yields Since September FOMC*

BPS

	5-Year	10-Year
Nominal Yield	-24	-10

Real Yield	-51	-40
BEI Rate	27	29

Source: Federal Reserve Board of Governors

Middle-right panel

(4)

Title: Probability of Balance Sheet Expansion*

Series: FRBNY policy survey

Horizon: Year-end

Description: Market participants have placed the probability of balance sheet expansion at this meeting around 90%.

*April and June represent probability over 2-year horizon. [Approximate probability of expansion by year-end, as plotted in chart: April 10%, June 12%, August 25%, September 40%, November 95%.] [Return to text](#)

Source: Federal Reserve Bank of New York Policy Survey

Bottom-left panel

(5)

Title: Modal Forecast of First Rate Hike

Series: FRBNY policy survey

Horizon: August 2010 - October 2012

Description: The expected timing of the first increase in the federal funds rate has been pushed further into the future.

Source: Federal Reserve Bank of New York Policy Survey

Bottom-right panel

(6)

Title: Implied Volatility of Short-term Rate (3-Month Rate 12 Months Ahead)

Series: Short term interest rate

Horizon: January 2, 1990 - October 29, 2010

Description: The implied volatility of outcomes for short-term interest rates over the next 12 months has collapsed to very low levels.

Source: Federal Reserve Board of Governors

Exhibit 2

Top-left panel

(7)

Title: Corporate Bond Spreads

Series: High yield and investment grade corporate debt spreads

Horizon: January 1, 2010 - October 29, 2010

Description: Corporate yield spreads have continued to narrow during the intermeeting period.

Source: Bank of America

Top-right panel

(8)

Title: Equity Prices

Series: S&P 500 index and Emerging Markets index

Horizon: August 3, 2009 - October 29, 2010

Description: Equity prices rose sharply during the intermeeting period.

Source: Bloomberg

Middle-left panel

(9)

Title: DXY Dollar Index

Series: DXY index

Horizon: August 3, 2009 - October 29, 2010

Description: The DXY dollar index fell over the intermeeting period, continuing the trend observed since the second quarter.

Source: Bloomberg

Middle-right panel

(10)

Title: Risk Reversal for Euro-Dollar Rate

Series: 25-delta euro-dollar risk reversal for 12 month horizon

Horizon: August 3, 2009 - October 29, 2010

Description: The market is not pricing in an unusual risk of a sharp dollar decline going forward.

Source: Bloomberg

Bottom-left panel

(11)

Title: US Bank Equities

Series: S&P Financial Sector, Wells Fargo, JP Morgan, and Bank of America

Horizon: August 3, 2009 - October 29, 2010

Description: Equity prices for some large financial firms fell during the intermeeting period in response to problems with mortgage foreclosures.

Source: Bloomberg

Bottom-right panel

(12)

Title: Non-Agency RMBS Price Index

Series: ABX Home Equity 2006-02 AAA CDS Index

Horizon: July 19, 2006 - October 29, 2010

Description: The market for mortgage-backed securities has not been significantly affected by the foreclosure issues because of the guarantee provided by the GSEs.

Source: Barclays Capital

Exhibit 3

Top-left panel

(13)

Title: Treasury Purchases for Reinvestment

Series: Treasury Purchases

Horizon: August 10, 2010 - November 1, 2010

Description: Since the August FOMC the Federal Reserve has purchased \$65 billion of Treasury securities.

Source: Federal Reserve Bank of New York

Top-right panel

(14)

Title: Duration of SOMA Portfolio

Series: Treasury, Agency debt, and Agency MBS duration

Horizon: January 1, 2006 - October 20, 2010

Description: The duration of our recent Treasury purchases roughly matches the average duration of our existing Treasury holdings.

Source: Federal Reserve Bank of New York

Middle-left panel

(15) *Expected Structure of LSAP*

Approach	Number of Respondents	Initial Announcement Size (Billions)	Total Size of Program (Billions)
Incremental	11	100	900
Intermediate	25	500	1000
Large	0	N/A	N/A

Source: Federal Reserve Bank of New York Policy Survey

Middle-right panel

(16)

Title: Effect of LSAP on Ten-year Treasury Yield

Series: FRBNY policy survey

Horizon: N/A

Description: Respondents attributed 35 to 40 basis points of movement in the ten-year Treasury yield to a \$500 billion shift in the balance sheet.

Source: Federal Reserve Bank of New York Policy Survey

Bottom-left panel

(17)

Title: Implied Volatility of Long-term Rate (10-Year Rate 3 Years Ahead)

Series: Long term interest rate

Horizon: April 4, 1994 - October 29, 2010

Description: The volatility of the ten-year rate has moved lower in the past three years showing there is not much market concern about our ability to exit from an expanded balance sheet.

Source: Barclays Capital

Bottom-right panel
(18)

Title: Forward Breakeven Inflation Rate (5-Year Rate 5 Years Ahead)

Series: Forward breakeven inflation rate

Horizon: January 2, 2002 - October 29, 2010

Description: The forward breakeven inflation rate has risen onto the upper half of its historical range.

Source: Federal Reserve Board of Governors

Appendix 2: Materials used by Ms. Weinbach

Material for Briefing on

FOMC Participants' Economic Projections

Gretchen Weinbach

November 2-3, 2010

Class I FOMC - Restricted Controlled (FR)

Exhibit 1. Central tendencies and ranges of economic projections, 2010-13 and over the longer run

Central tendencies and ranges of economic projections for years 2010 through 2013 and over the longer run. Actual values for years 2005 through 2009.

Change in real GDP

Percent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Longer Run
Actual	2.7	2.4	2.3	(2.8)	0.2	-	-	-	-	-
Upper End of Range	-	-	-	-	-	2.5	4.0	4.7	5.0	3.0
Upper End of Central Tendency	-	-	-	-	-	2.5	3.6	4.5	4.6	2.8
Lower End of Central Tendency	-	-	-	-	-	2.4	3.0	3.6	3.5	2.5
Lower End of Range	-	-	-	-	-	2.3	2.5	2.6	3.0	2.4

Unemployment rate

Percent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Longer Run
Actual	5.0	4.5	4.8	6.9	10.0	-	-	-	-	-
Upper End of Range	-	-	-	-	-	9.8	9.3	8.7	7.9	6.3
Upper End of Central Tendency	-	-	-	-	-	9.7	9.1	8.2	7.4	6.0
Lower End of Central Tendency	-	-	-	-	-	9.5	8.9	7.7	6.9	5.0
Lower End of Range	-	-	-	-	-	9.4	8.2	7.0	5.9	5.0

PCE inflation

Percent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Longer Run
Actual	3.3	1.9	3.5	1.7	1.5	-	-	-	-	-
Upper End of Range	-	-	-	-	-	1.5	2.2	2.2	2.0	2.0

Upper End of Central Tendency	-	-	-	-	-	1.4	1.7	1.8	2.0	2.0
Lower End of Central Tendency	-	-	-	-	-	1.2	1.1	1.1	1.2	1.6
Lower End of Range	-	-	-	-	-	1.1	0.9	0.6	0.4	1.5

Core PCE inflation

Percent

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Actual	2.3	2.3	2.4	2.0	1.7	-	-	-	-
Upper End of Range	-	-	-	-	-	1.5	2.0	2.0	2.0
Upper End of Central Tendency	-	-	-	-	-	1.1	1.6	1.6	2.0
Lower End of Central Tendency	-	-	-	-	-	1.0	0.9	1.0	1.1
Lower End of Range	-	-	-	-	-	0.9	0.7	0.6	0.5

Exhibit 2. Economic projections for 2010 (percent)

Change in real GDP

	2010	2010:H1	2010:H2
Central Tendency	2.4 to 2.5	2.7 to 2.7	2.1 to 2.3
<i>June projections</i>	3.0 to 3.5	3.2 to 3.5	2.9 to 3.6
Range	2.3 to 2.5	2.7 to 2.7	1.9 to 2.3
<i>June projections</i>	2.9 to 3.8	3.1 to 3.6	2.6 to 4.0
Memo: Tealbook	2.4	2.7	2.0
<i>June Tealbook</i>	3.2	3.4	3.0

Unemployment Rate

	2010:Q4
Central Tendency	9.5 to 9.7
<i>June projections</i>	9.2 to 9.5
Range	9.4 to 9.8
<i>June projections</i>	9.0 to 9.9
Memo: Tealbook	9.7
<i>June Tealbook</i>	9.5

PCE Inflation

	2010	2010:H1	2010:H2
Central Tendency	1.2 to 1.4	1.0 to 1.0	1.4 to 1.8
<i>June projections</i>	1.0 to 1.1	0.8 to 1.0	1.1 to 1.4
Range	1.1 to 1.5	1.0 to 1.0	1.2 to 2.0
<i>June projections</i>	0.9 to 1.8	0.6 to 1.6	0.9 to 2.0
Memo: Tealbook	1.3	1.0	1.5
<i>June Tealbook</i>	0.9	0.7	1.2

Core PCE Inflation

	2010	2010:H1	2010:H2
Central Tendency	1.0 to 1.1	1.1 to 1.1	0.9 to 1.1
<i>June projections</i>	0.8 to 1.0	0.7 to 0.9	0.8 to 1.1

Range	0.9 to 1.5	1.1 to 1.1	0.7 to 1.9
<i>June projections</i>	<i>0.7 to 1.5</i>	<i>0.4 to 1.0</i>	<i>0.7 to 2.0</i>
Memo: Tealbook	1.1	1.1	1.0
<i>June Tealbook</i>	<i>0.8</i>	<i>0.8</i>	<i>0.8</i>

NOTE: For change in real GDP and inflation, the values for 2010, 2010:H1, and 2010:H2 are at annual rates in percent, measured in terms of Q4/Q4, Q2/Q4, and Q4/Q2, respectively.

Exhibit 3. Economic projections for 2011-2013 and over the longer run (percent)

Change in real GDP

	2011	2012	2013	Longer run
Central Tendency	3.0 to 3.6	3.6 to 4.5	3.5 to 4.6	2.5 to 2.8
<i>June projections</i>	<i>3.5 to 4.2</i>	<i>3.5 to 4.5</i>	---	<i>2.5 to 2.8</i>
Range	2.5 to 4.0	2.6 to 4.7	3.0 to 5.0	2.4 to 3.0
<i>June projections</i>	<i>2.9 to 4.5</i>	<i>2.8 to 5.0</i>	---	<i>2.4 to 3.0</i>
Memo: Tealbook	3.6	4.7	4.7	2.8
<i>June Tealbook</i>	<i>3.7</i>	<i>4.8</i>	<i>4.7</i>	<i>2.5</i>

Unemployment rate

	2011	2012	2013	Longer run
Central Tendency	8.9 to 9.1	7.7 to 8.2	6.9 to 7.4	5.0 to 6.0
<i>June projections</i>	<i>8.3 to 8.7</i>	<i>7.1 to 7.5</i>	---	<i>5.0 to 5.3</i>
Range	8.2 to 9.3	7.0 to 8.7	5.9 to 7.9	5.0 to 6.3
<i>June projections</i>	<i>7.6 to 8.9</i>	<i>6.8 to 7.9</i>	---	<i>5.0 to 6.3</i>
Memo: Tealbook	9.0	7.9	7.1	5.2
<i>June Tealbook</i>	<i>8.6</i>	<i>7.1</i>	<i>5.8</i>	<i>5.2</i>

PCE inflation

	2011	2012	2013	Longer run
Central Tendency	1.1 to 1.7	1.1 to 1.8	1.2 to 2.0	1.6 to 2.0
<i>June projections</i>	<i>1.1 to 1.6</i>	<i>1.0 to 1.7</i>	---	<i>1.7 to 2.0</i>
Range	0.9 to 2.2	0.6 to 2.2	0.4 to 2.0	1.5 to 2.0
<i>June projections</i>	<i>0.8 to 2.4</i>	<i>0.5 to 2.2</i>	---	<i>1.5 to 2.0</i>
Memo: Tealbook	1.1	1.1	1.2	2.0
<i>June Tealbook</i>	<i>1.0</i>	<i>1.0</i>	<i>1.2</i>	<i>2.0</i>

Core PCE inflation

	2011	2012	2013
Central Tendency	0.9 to 1.6	1.0 to 1.6	1.1 to 2.0
<i>June projections</i>	<i>0.9 to 1.3</i>	<i>1.0 to 1.5</i>	---
Range	0.7 to 2.0	0.6 to 2.0	0.5 to 2.0
<i>June projections</i>	<i>0.6 to 2.4</i>	<i>0.4 to 2.2</i>	---
Memo: Tealbook	1.0	1.0	1.2
<i>June Tealbook</i>	<i>0.8</i>	<i>1.0</i>	<i>1.2</i>

Exhibit 4. Risks and uncertainty in economic projections

Top-left panel

Uncertainty about GDP growth

Number of participants

	Lower	Similar	Higher
November projections	0	2	16
June projections	0	3	14

Top-right panel

Risks to GDP growth

Number of participants

	Downside	Balanced	Upside
November projections	7	10	1
June projections	9	8	0

Bottom-left panel

Uncertainty about PCE inflation

Number of participants

	Lower	Similar	Higher
November projections	1	3	14
June projections	1	3	13

Bottom-right panel

Risks to PCE inflation

Number of participants

	Downside	Balanced	Upside
November projections	5	11	2
June projections	4	12	1

Appendix 3: Materials used by Mr. English

Material for
FOMC Briefing on Monetary Policy Alternatives

Bill English
November 3, 2010

Class I FOMC - Restricted Controlled (FR)

September FOMC Statement

Information received since the Federal Open Market Committee met in August indicates that the pace of

recovery in output and employment has slowed in recent months. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts are at a depressed level. Bank lending has continued to contract, but at a reduced rate in recent months. The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be modest in the near term.

Measures of underlying inflation are currently at levels somewhat below those the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate.

The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings.

The Committee will continue to monitor the economic outlook and financial developments and is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate.

[Note: In the November FOMC Statement Alternatives, strong emphasis (bold) indicates bold red underlined text in the original document, emphasis (italics) indicates bold blue underlined (or, as indicated, strike-through) text in the original document, and strike-through text indicates strike-through text in the original document.]

November FOMC Statement--Alternative A

Information received since the Federal Open Market Committee met in ~~August~~ **September** ~~indicates~~ **confirms** that the pace of recovery in output and employment ~~has slowed in recent months~~ **continues to be slow**.

Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts **continue to be** ~~are at a depressed level~~. Bank lending ~~has continued to contract, but at a reduced rate in recent months~~. The Committee ~~anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be modest in the near term~~. **Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters.**

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are ~~currently at levels somewhat low below these, relative to levels that the Committee judges to be most consistent, over the longer run, with its dual mandate. to promote maximum employment and price stability. With substantial resource slack continuing to restrain cost pressures and longer term inflation expectations stable, inflation is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate.~~ **Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, it judges that progress toward its objectives has been unacceptably slow.**

To promote a stronger pace of economic recovery and to return inflation, over time, to levels consistent with its mandate, the Committee decided today to expand its holdings of securities. The Committee ~~also~~ will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~and~~ *In addition, the Committee intends to purchase an additional a further \$1 trillion of longer-term Treasury securities by the end of 2011, an average a pace of approximately about \$70 billion of purchases per month.*

The Committee **expects to** ~~will~~ maintain the target range for the federal funds rate at 0 to ¼ percent **at least until mid-2012, so long as: The unemployment rate remains elevated; the Committee continues to anticipate that, with such a policy stance, will not lead to rates of inflation in the intermediate term will not that exceed the levels that it deems consistent with its mandate; and longer-term inflation expectations remain well anchored.** ~~and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.~~

The Committee will continue to monitor the economic outlook and financial developments and is prepared to

provide additional accommodation if ~~as~~ needed to ~~support~~ **strengthen** the economic recovery and to ~~return~~ **move** inflation, over time, to levels consistent with its mandate.

November FOMC Statement--Alternative B

Information received since the Federal Open Market Committee met in ~~August~~ **September** ~~indicates~~ **confirms** that the pace of recovery in output and employment ~~has slowed in recent months~~ **continues to be slow**. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts ~~continue to be~~ **are at a** depressed level. Bank lending ~~has continued to contract, but at a reduced rate in recent months~~. The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be modest in the near term. **Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters.**

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are ~~currently at levels somewhat low below,~~ **relative to levels that the Committee judges to be most consistent, over the longer run,** with its ~~dual~~ mandate. ~~to promote maximum employment and price stability. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate.~~ **Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, it judges that progress toward its objectives has been unacceptably slow.**

To promote a stronger pace of economic recovery and to return inflation, over time, to levels consistent with its mandate, the Committee decided today to expand its holdings of securities. The Committee ~~also~~ will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~and~~ **In addition, the Committee intends to purchase an additional a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, an average a pace of about \$75 billion of purchases per month.**

The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

The Committee will continue to monitor the economic outlook and financial developments and **will employ its policy tools as necessary** ~~is prepared to provide additional accommodation if needed~~ to support the economic recovery and to return inflation, over time, to levels consistent with its mandate. **In particular, the Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.**

November FOMC Statement--Alternative C

Information received since the Federal Open Market Committee met in ~~August~~ **September** ~~indicates~~ **confirms** that the pace of recovery in output and employment ~~has slowed in recent months~~ **continues to be slow**. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts are at a depressed level. Bank lending has continued to contract, but at a reduced rate in recent months. The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to ~~be~~ **remain** modest in the near term.

Measures of underlying inflation are currently at levels somewhat below those the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate.

The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an

extended period. The Committee also will ~~maintain~~ **continue the its** existing policy of reinvesting principal payments from its securities holdings **to maintain the size of its securities holdings at current levels.**

The Committee will continue to monitor the economic outlook and financial developments and is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate.

November FOMC Statement--Alternative D

Information received since the Federal Open Market Committee met in ~~August~~ **September** indicates that the ~~pace of economic recovery in output and employment has slowed in recent months~~ **is proceeding**. Household ~~income and spending are~~ **is** increasing gradually, but remains constrained by high unemployment, modest ~~income growth, lower housing wealth, and tight credit,~~ **and** business spending on equipment and software is rising, ~~though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts are at a depressed level.~~ **The contraction in bank lending has slowed** ~~continued to contract, but at a reduced rate in recent months.~~ The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, ~~although the pace of economic recovery is likely to be modest in the near term.~~

~~Measures of underlying inflation are currently at levels somewhat below those the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability. With substantial resource slack continuing to restrain cost pressures and longer term inflation expectations stable, inflation is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate.~~

The Committee ~~will~~ **decided to** maintain the target range for the federal funds rate at 0 to ¼ percent and ~~continues to anticipate~~ that economic conditions, ~~including low rates of resource utilization, subdued inflation trends, and stable inflation expectations,~~ are likely to warrant ~~exceptionally~~ low levels for the federal funds rate for ~~an extended period~~ **some time**. **For the time being,** the Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings.

The Committee will continue to monitor the economic outlook and financial developments and ~~is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate~~ **anticipates that it will gradually begin to remove policy accommodation at the appropriate time to promote maximum employment and price stability.**

September 2010 FOMC Directive

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

[Note: In the November 2010 FOMC Directive Alternatives, strong emphasis (bold) indicates bold red underlined text in the original document, emphasis (italics) indicates bold red text in the original document, and strike-through text indicates strike-through text in the original document.]

November 2010 FOMC Directive -- Alternative A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. *The Committee directs the Desk to execute purchases of longer-term Treasury securities by the end of December 2011 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$3 trillion.* The Committee **also** directs the Desk to ~~maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by~~ reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and

the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

November 2010 FOMC Directive -- Alternative B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. *The Committee directs the Desk to execute purchases of longer-term Treasury securities by the end of June 2011 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$2.6 trillion.* The Committee **also** directs the Desk to ~~maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion~~ by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

November 2010 FOMC Directive -- Alternative C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

November 2010 FOMC Directive -- Alternative D

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Appendix 4: Materials used by Mr. Sack

Material for
FOMC Presentation: *Operational Implications of Policy Alternatives*

Brian Sack
November 3, 2010

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel

(1)

Title: Monthly Pace of Purchases

Series: Agency, Treasury, and MBS purchases

Horizon: January 1, 2009 - July 1, 2011

Description: The projected path of Treasury purchases would average \$110 billion a month.

Source: Federal Reserve Bank of New York

Top-right panel

(2)

Title: Proposed Distribution vs. Current Reinvestment Program

Series: Treasury distribution

Horizon: N/A

Description: Proposed distribution of Treasury purchases across different maturities for both Alt B (\$600B LSAP) and Alt C (reinvestment only).

Source: Federal Reserve Bank of New York

Middle-left panel

(3)

Title: Amount of Domestic Securities Held in SOMA

Series: SOMA Holdings

Horizon: December 2010 - December 2020

Description: Total SOMA holdings under Alt B and Alt C are estimated to be in line after 2016.

Source: Federal Reserve Bank of New York

Middle-right panel

(4)

Title: Annual Net Income Projections

Series: Net Income

Horizon: December 2009 - December 2020

Description: Alt B increases the expected stream of net income produced by SOMA for the next several years; however, eventually the additional assets lower the expected income stream.

Source: Federal Reserve Bank of New York

Bottom-left panel

(5)

Title: Income Sensitivity to Higher Short-Term Rates (+100BPS)

Series: Interest rates 100 BPS higher than Tealbook assumptions

Horizon: January 2011 - January 2020

Description: Over the ten year period, the cumulative difference in the income realized under the risk scenario versus the Alt B scenario is about \$50 billion.

Source: Federal Reserve Bank of New York

Bottom-right panel

(6)

Title: Unrealized P&L

Series: Unrealized P&L

Horizon: December 2010 - December 2020

Description: The portfolio is projected to swing from the considerable unrealized capital gains to sizable unrealized capital losses.

Source: Federal Reserve Board of Governors

Statement Regarding Purchases of Treasury Securities

On November 3, 2010, the Federal Open Market Committee (FOMC) decided to expand the Federal Reserve's holdings of securities in the System Open Market Account (SOMA) to promote a stronger pace of economic recovery and to return inflation, over time, to levels consistent with its mandate. In particular, the FOMC directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to purchase an additional \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011.

The FOMC also directed the Desk to continue to reinvest principal payments from agency debt and agency mortgage-backed securities into longer-term Treasury securities. Based on current estimates, the Desk expects to reinvest \$250 to \$300 billion over the same period, though the realized amount of reinvestment will depend on the evolution of actual repayments.

Taken together, the Desk anticipates conducting \$850 to \$900 billion of purchases of longer-term Treasury securities through the end of the second quarter, an average pace of roughly \$110 billion per month.

The Desk plans to distribute these purchases across the following eight maturity sectors based on the approximate weights below:

Nominal Coupon Securities by Maturity Range*							TIPS**
1½ - 2½ Years	2½ - 4 Years	4 - 5½ Years	5½ - 7 Years	7 - 10 Years	10 - 17 Years	17 - 30 Years	1½ - 30 Years
5%	20%	20%	23%	23%	2%	4%	3%

* The on-the-run 7-year note will be considered part of the 5½- to 7-year sector, and the on-the-run 10-year note will be considered part of the 7- to 10-year sector. [Return to table](#)

** TIPS weights are based on unadjusted par amounts. [Return to table](#)

Under this distribution, the Desk anticipates that the assets purchased will have an average duration of between 5 and 6 years. The distribution of purchases could change if market conditions warrant, but such changes would be designed to not significantly alter the average duration of the assets purchased.

To provide operational flexibility and to ensure that it is able to purchase the most attractive securities on a relative-value basis, the Desk is temporarily suspending the 35 percent per-issue limit on SOMA holdings under which it has been operating. SOMA holdings will be allowed to move above 35 percent only incrementally, in order to help maintain liquidity and avoid dislocations in individual securities.

Purchases associated with balance sheet expansion and those associated with principal reinvestments will be consolidated into one set of operations to be announced under the current monthly cycle. On or around the eighth business day of each month, the Desk will publish a tentative schedule of purchase operations expected to take place through the middle of the following month, as well as the anticipated total amount of purchases to be conducted over that period. The schedule will include a list of operation dates, settlement dates, security types to be purchased (nominal coupons or TIPS), the maturity date range of eligible issues, and an expected range for the size of each operation.

The Desk expects to conduct the November 4 and November 8 purchase operations that were announced on

October 13, and it plans to publish its first consolidated monthly schedule on November 10 at 2:00 p.m.

Purchases will be conducted with the Federal Reserve's primary dealers through a series of competitive auctions operated through the Desk's FedTrade system. Consistent with current practices, the results of each operation will be published on the Federal Reserve Bank of New York's website shortly after each purchase operation has concluded. In order to ensure the transparency of our purchase operations, the Desk will also begin to publish information on the prices paid in individual operations at the end of each monthly calendar period, coinciding with the release of the next period's schedule.

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Last update: January 15, 2016