

Accessible Version

Meeting of the Federal Open Market Committee December 14, 2010 Presentation Materials

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

Pages 111 to 127 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for

FOMC Presentation: *Financial Market Developments and Desk Operations*

Brian Sack

December 14, 2010

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel

(1)

Title: Treasury Yields

Series: 2-year, 5-year, and 10-year Treasury yields

Horizon: January 1, 2010 - December 10, 2010

Description: Treasury yields increased in the intermeeting period.

A vertical line marks the FOMC meeting of November 2-3, 2010.

Source: Bloomberg

Top-right panel

(2)

Title: Intermeeting Change in 10-Year Yield

Series: 10-year Treasury yield change during intermeeting periods

Horizon: January 1, 2007 - December 10, 2010

Description: The most recent change in the yield represents the largest intermeeting increase observed in recent years.

Source: Bloomberg

Middle-left panel

(3)

Title: Expected Size of LSAP

Series: FRBNY policy survey

Horizon: November FOMC, December (pre-fiscal news), and December (post-fiscal news)

Description: The median expectations of LSAP program have decreased.

Source: Federal Reserve Bank of New York Policy Survey

Middle-right panel

(4)

Title: Implied Federal Funds Rate Path

Series: Future federal funds rates implied by Eurodollar and federal funds futures contracts

Horizon: 11/2/10 and 12/10/10

Description: The implied path of the fed funds rate increased since the last FOMC meeting.

Source: Federal Reserve Bank of New York

Bottom-left panel

(5)

Title: Implied Volatility of Ten-Year Rate

Series: Implied volatility of swap rate derived from swaption contracts expiring in 3-months

Horizon: August 2009 - December 2010

Description: The anticipated volatility of longer-term interest rates implied by option prices moved up notably during the intermeeting period.

Source: Barclays Capital

Bottom-right panel

(6) *Asset Price Changes*

	Jackson Hole to Nov. FOMC	Since Nov. FOMC
10Y Nominal	-6	+73
10Y Real	-61	+70
10Y BEI	+55	+3
S&P 500	+12%	+4%
Corporate IG*	-19	-5
Corporate HY*	-107	-25
Dollar**	-5%	+2%

* CDX [Return to table](#)

** FRB trade weighted dollar index [Return to table](#)

Source: Bloomberg, Board of Governors

Exhibit 2

Top-left panel

(7)

Title: Euro Area 2-Year Yield Spreads to German Debt

Series: Ireland, Portugal, Spain, and Italy

Horizon: August 3, 2009 - December 10, 2010

Description: Sovereign debt spreads over German debt in each of these countries increased during the intermeeting period.

Source: Bloomberg

Top-right panel
(8)

Title: Euro Area Bank CDS*

Series: Ireland, Portugal, Spain, and Italy

Horizon: August 3, 2009 - December 10, 2010

Description: CDS spreads of the largest financial firms in those countries widened during the intermeeting period.

* Average bank CDS by country [Return to text](#)

Source: Bloomberg

Middle-left panel
(9)

Title: Global Equities

Series: S&P 500 and Euro Stoxx

Horizon: August 3, 2009 - December 10, 2010

Description: The S&P 500 and Euro Stoxx increased during the intermeeting period.

Source: Bloomberg

Middle-right panel
(10)

Title: Euro-Dollar Exchange Rate

Series: Euro-Dollar rate

Horizon: August 3, 2009 - December 10, 2010

Description: The euro depreciated sharply against the dollar during the intermeeting period.

Source: Bloomberg

Bottom-left panel
(11) *Money Fund Holdings of Liabilities of European Financial Institutions*

USD Billions

	Level on 12/1/2010	Change Since 11/3/2010
France	\$238.1	2%
Germany	\$134.9	7%
Ireland	\$0.0	0%
Italy	\$21.6	-16%
Spain	\$25.5	-38%

Source: Confidential data from Investment Company Institute

Bottom-right panel
(12)

Title: 3-Month Funding Spreads to OIS

Series: Euribor Panel (swapped to dollar) and Libor Panel

Horizon: August 3, 2009 - December 10, 2010

Description: The spot Libor spread to OIS has remained stable. However, the swap-implied rate for the Euribor panel has increased.

Source: Bloomberg

Exhibit 3

Top-left panel (13)

Title: Treasury Purchases by Maturity

Series: Treasury Purchases

Horizon: August 10, 2010 - November 1, 2010

Description: The Desk has conducted \$81 billion of purchases out of the \$600 billion expansion and \$25 billion of purchases over the same period associated with the reinvestment of principal payments on agency debt and mortgage-backed securities.

Source: Federal Reserve Bank of New York

Top-right panel (14)

Title: Trading Volume in Treasury Securities

Series: 10-day moving average of all benchmark coupon securities

Horizon: January 1, 2006 - December 9, 2010

Description: Trading volumes decreased during the intermeeting period.

Source: BrokerTec

Middle-left panel (15)

Title: Number of Issues Trading Special

Series: 10-day moving average. Trading special defined as having a repo rate at least 15 basis points below the general collateral rate.

Horizon: January 3, 2006 - December 9, 2010

Description: The number of issues trading on special in the repo market has remained low.

Source: BrokerTec

Middle-right panel (16)

Title: Pace of Purchases

Series: \$75 billion per month, actual purchases, and potential path of purchases

Horizon: November 2010 - June 2011

Description: Since purchases began in mid-November, the desk fell short of the \$75 billion per month pace required to reach \$600 billion by the second quarter of 2011. Thus, the Desk will increase its monthly pace of purchases to about \$80 billion in early next year.

Source: Federal Reserve Bank of New York

Bottom-left panel (17)

Title: Projected SOMA Reinvestments

Series: November FOMC and December FOMC projected SOMA reinvestments

Horizon: November 2010 - June 2011

Description: With the recent back-up in longer-term rates, the projected MBS prepayments decreased.

Source: Federal Reserve Bank of New York

Bottom-right panel
(18)

Title: Spread Between 30- and 10-Year Treasury Yields

Series: Spread between 30- and 10-year Treasury yields

Horizon: August 3, 2009 - December 10, 2010

Description: The slope has retraced that initial reaction and has returned to levels observed before the FOMC meeting.

Source: Bloomberg

Appendix 2: Materials used by Mr. English

Material for

FOMC Briefing on Monetary Policy Alternatives

Bill English

December 14, 2010

Class I FOMC - Restricted Controlled (FR)

November FOMC Statement

Information received since the Federal Open Market Committee met in September confirms that the pace of recovery in output and employment 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 depressed. 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 somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

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

The Committee will maintain the target range for the federal funds rate at 0 to $\frac{1}{4}$ 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 to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

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

December FOMC Statement--Alternative A

Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of economic~~ **recovery is continuing, though at a rate that has been insufficient to bring down unemployment** ~~in output and employment 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. **The housing starts sector** continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have ~~continued to trended lower in recent quarters~~ **downward**.

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 somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives ~~has been~~ **remains** disappointingly slow.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to **continue** expanding its holdings of securities. **Moreover, in light of incoming information, the Committee now intends to increase its holdings of securities by a total of \$800 billion--\$200 billion more than announced last month--by purchasing longer-term Treasury securities at a pace of about \$75 billion per month through the third quarter of 2011. In addition,** the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month.~~ 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.

The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and ~~continues to~~ **currently** anticipates 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~~ **at least through mid-2012**.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

December FOMC Statement--Alternative B

Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of economic~~ **recovery is continuing, though at a rate that has been insufficient to bring down unemployment** ~~in output and employment continues to be slow~~. Household spending is increasing ~~gradually~~ **at a moderate pace**, 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. **The housing starts sector** continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have ~~continued to trended lower in recent quarters~~ **downward**.

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 somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to **continue** expanding its holdings of securities ~~as announced in November~~. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase ~~a further~~ \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. 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.

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 to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

December FOMC Statement--Alternative C

Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of recovery in output and employment continues to be slow~~ **is continuing**. Household Spending is ~~by households and businesses appears to be~~ increasing gradually, **at a moderate pace**, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising ~~has decelerated, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak~~. **However**, employers remain reluctant to add to payrolls, **and** housing starts continue to be depressed. 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 somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been ~~disappointingly~~ slow.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to **continue** expanding its holdings of securities. **However, in light of incoming information, the Committee now intends to increase its holdings of securities by a total of \$400 billion--\$200 billion less than announced last month--by purchasing longer-term Treasury securities at a pace of about \$50 billion per month through the second quarter of 2011. In addition,** the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month.~~ 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.

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 to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

December FOMC Statement--Alternative D

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of economic recovery in output and employment continues to be slow~~ **is proceeding**. Household Spending ~~by households and businesses~~ is increasing gradually, **at a moderate pace**, 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 continues to be depressed. Longer-term inflation expectations have remained stable, but **Although** measures of underlying inflation have trended lower in recent quarters, **longer-term inflation expectations have remained stable. The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability.**

2. ~~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 somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.~~

2. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, **Based on this assessment of current and prospective economic conditions**, the Committee decided today to **discontinue the asset-purchase program it announced in November** ~~expand its holdings of securities.~~ **For the time being**, the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. 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.~~

3. 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~~ **some time**.

4. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to ~~support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate~~ **promote maximum employment and price stability**.

November 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 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 reinvest 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 December 2010 FOMC Directive Alternatives, strong emphasis (bold) indicates bold red underlined text in the original document, and emphasis (strike-through) indicates strike-through text in the original document.]

December 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 June 2014~~ in order to increase the total face value of domestic securities held in the System Open Market Account to approximately ~~\$2.6~~ **\$2.8 trillion by the end of September 2011**. The Committee also directs the Desk to reinvest 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.

December 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 2014~~ in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$2.6 trillion **by the end of June 2011**. The Committee also directs the Desk to reinvest 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.

December 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 execute purchases of longer-term Treasury securities ~~by the end of June 2014~~ in order to increase the total face value of domestic securities held in the System Open Market Account to approximately ~~\$2.6~~ **\$2.4** trillion **by the end of June 2011**. The Committee also directs the Desk to reinvest 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.

December 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 ~~execute purchases of longer-term Treasury securities by the end of June 2011 in order to increase~~ **maintain** the total face value of domestic securities held in the System Open Market Account ~~to~~ **at** approximately ~~\$2.6~~ **\$2.1** trillion. ~~The Committee also directs the Desk to~~ **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.

[▲Return to top](#)