

February 24, 2010



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Fed Insight: Mr. Bernanke States the Obvious

The Fed Chairman's Humphrey-Hawkins testimony could hardly have been less eventful.

The Fed remains unabashedly dovish, with the Chairman mastering the obvious: that unemployment is "of particular concern" and that slack in the labor market has muted wage pressures. While the Chairman did remind the markets that the Fed will begin to tighten at some point, it is clear from the following excerpt that any rise in Fed Funds rate is a ways away:

"The FOMC 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 of the federal funds rate for an extended period."

The Fed's moderate outlook on growth was reiterated: "...roughly 3 to 3-1/2 percent in 2010 and 3-1/2 to 4-1/2 percent in 2011. The Fed's inflation forecast is also moderate, i.e. "...between 1 and 2 percent in 2010 through 2012. In the longer term, inflation is expected to be between 1-3/4 and 2 percent."

Other points Mr. Bernanke referenced included:

- 1) **Reverse Repos:** The Fed is "developing the capacity to carry out these transactions with a wider set of counterparties (such as money market mutual funds and the mortgage-related government-sponsored enterprises) and using agency mortgage-backed securities as collateral." Rumors are circulating regarding the addition of GSE's, who, at least in theory, could engage in massive transactions with the Fed.
- 2) **MBS purchases ending in March:** "The FOMC will continue to evaluate its purchases of securities in light of the evolving economic outlook and conditions in financial markets." Translation: the Fed is NOT closing the door on its \$1+ Trillion agency MBS purchase program. If agency mortgages go into the tank, asset purchases can start again.

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