



Member FINRA/SIPC

## Washington Policy

## Flash Note

### Take the FOMC Minutes With A Grain of Salt, Its Dovish through 2013

January 4, 2013

Isaac Boltansky

202.534.1396

iboltansky@compasspointllc.com

The [minutes](#) from the Federal Open Market Committee's (FOMC) December 11-12 meeting were released on December 3 and included a surprise statement on its asset purchases. It is important to bifurcate the FOMC's statement between its zero interest rate policy (ZIRP) and its asset purchases. In terms of ZIRP, the FOMC reiterated its metrics-based guidance: "that the exceptionally low range for the federal funds rate would remain appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's longer-run goal, and longer-term inflation expectations continue to be well anchored." **Point being: the FOMC's metrics-based guidance regarding ZIRP has not changed.**

The market was rattled because of a comment in the minutes regarding the Fed's asset purchase. From the FOMC minutes: "Several others thought that it would probably be appropriate to slow or to stop purchases well before the end of 2013, citing concerns about financial stability or the size of the balance sheet. One member viewed any additional purchases as unwarranted." In this same section, the FOMC minutes reinforced the guidance that its ZIRP is likely to continue after its asset purchases. Specifically, the minutes state: "Committee decided to indicate in the statement language that it expects the highly accommodative stance of monetary policy to remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens."

While the asset purchase statement came as a surprise, we believe it important to note that the composition of the FOMC actually becomes more dovish in 2013. Charlie Evans and Eric Rosengren, Presidents of the Chicago and Boston Federal Reserve Banks respectively, will rotate onto the FOMC. These two individuals are remarkably dovish in comparison to their counterparts who are rotating off of the FOMC. Furthermore, the FOMC's lone monetary hawk in 2012, Richmond Fed President Jeffrey Lacker, will be replaced by the decidedly more moderate Kansas City Fed President Esther George. Finally, we believe that Ben Bernanke will leave the Federal Reserve when his term as Chair expires in January 2014 and that his replacement will be Janet Yellin, his current Vice Chair. Yellin is markedly more dovish than Bernanke. The FOMC does not take a meaningful shift to hawkish until Charlie Plosser and Richard Fisher rotate onto the committee in 2014. **The composition of the FOMC leads us to believe that it will likely continue asset purchases through 2013, only changing that policy in 2014. This change in its asset purchasing policy will then signal an impending end to its ZIRP, however this is a 2014 issue in our view.**

| 2013 FOMC Membership   |                          |                  |                  |                                   |                            |
|------------------------|--------------------------|------------------|------------------|-----------------------------------|----------------------------|
|                        | Federal Reserve Official | Dove/Hawk Rating | Appointment Date | End of Chair /<br>Vice-Chair Term | End of Term as<br>Governor |
| Board of Governors     | Ben S. Bernanke          | Moderate/Dove    | 2/1/2006         | 1/31/2014                         | 1/31/2020                  |
|                        | Janet L. Yellen          | Dove             | 10/4/2010        | 10/4/2014                         | 1/31/2024                  |
|                        | Elizabeth A. Duke        | Moderate/Dove    | 8/5/2008         |                                   | 1/31/2012*                 |
|                        | Daniel K. Tarullo        | Moderate/Dove    | 1/28/2009        |                                   | 1/31/2022                  |
|                        | Sarah Bloom Raskin       | Dove             | 10/4/2010        |                                   | 1/31/2016**                |
|                        | Jeremy C. Stein          | Dove             | 5/30/2012        |                                   | 1/31/2018**                |
|                        | Jerome H. Powell         | Moderate         | 5/25/2012        |                                   | 1/31/2014**                |
| Fed Bank<br>Presidents | William C. Dudley        | Dove             | 1/27/2009        |                                   |                            |
|                        | Charles L. Evans         | Dove             | 9/1/2007         |                                   |                            |
|                        | Eric S. Rosengren        | Dove             | 7/23/2007        | 2/29/2016                         |                            |
|                        | James Bullard            | Moderate         | 4/1/2008         |                                   |                            |
|                        | Esther George            | Hawk             | 10/1/2011        |                                   |                            |

\* Expired term, law dictates that a Governor with an expired term "shall continue to serve until their successors are appointed" so this spot could be filled in the next term.

\*\* Filing a previously unexpired term.

Note: Highlighted cell note changes that could be made during the next Presidential term

Source: Federal Reserve, Compass Point

# Important Disclosures

## Analyst Certification

I, Isaac Boltansky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issues. I further certify that I have not received direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

| Coverage Universe |        |         | Investment Banking Relationships |        |         |
|-------------------|--------|---------|----------------------------------|--------|---------|
| Rating            | Number | Percent | Rating                           | Number | Percent |
| Buy               | 48     |         | Buy                              | 4      | 8       |
| Neutral           | 53     |         | Neutral                          | 0      | 0       |
| Sell              | 8      |         | Sell                             | 0      | 0       |
| Total             | 109    | 100%    | Total                            | 4      | 100%    |

\*Percentage of Investment Banking Clients in Coverage Universe by Rating

## Ownership and Material Conflicts of Interest

### **Ratings, Coverage Groups, and Views and Related Definitions**

The information and rating included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating, options on such stocks, and/or other securities or financial instruments issued by the subject company(ies). Our brokers and analysts may make recommendations to their clients that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions are based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, Compass Point and its respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

Buy (B), Neutral (N), Sell (S) - Analysts recommend stocks as Buys or Sells for inclusion on the firm's recommended list. Being assigned a Buy or Sell on the recommended list is determined by a stock's absolute total rate of return potential, which includes potential or projected dividends. Any stock not assigned as a Buy or a Sell is deemed Neutral. A Buy (B) represents a total rate of return potential of 15% or greater on a 12-month horizon. A Neutral (N) represents a total rate of return of -15% to +15% on a 12-month horizon. A Sell (S) represents a total rate of return at or below -15% on a 12-month horizon. Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return, the likelihood of the realization of the return, or the time to realization of the return.

Return potential represents potential and projected dividends and the price differential between the current share price and the price target expected on a 12-month time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Recommended List membership.

Not Rated (NR): The investment rating and target price have been removed pursuant to Compass Point policy when Compass Point is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. Rating Suspended (RS): Compass Point Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price Compass Point has suspended coverage of this company. Not Covered (NC): Compass Point does not cover this company. Not Available or Not Applicable (NA): The information is not available for display or is not applicable. Not Meaningful (NM): The information is not meaningful and is therefore excluded.

## **Global Disclaimer**

Compass Point Research & Trading, LLC expects to receive or intends to seek compensation for investment banking services from the subject company(ies) in the next 3 months.

The research analyst(s) named in the certification above receives compensation based upon various factors, including, but not limited to, the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues generated by Compass Point Research & Trading, LLC's investment banking activities.

This report is based upon public information that Compass Point Research & Trading, LLC and the research analyst named in the attestation above assume to be correct.

Assumptions, opinions, forecasts, and estimates constitute the research analyst's judgment as of the date of this material and are subject to change without notice. The research analyst's judgments may be wrong.

Neither Compass Point Research & Trading, LLC nor its affiliates, nor the research analyst, are responsible for any errors, omissions, or results obtained from the use of this information.

Past performance is not necessarily indicative of future results.

The securities and/or financial instruments mentioned in this research report, and the trading strategies related thereto, may not be suitable for all investors. You must consider your specific investment goals and objectives prior to transacting in any security or financial instrument. Consult with your financial advisor before making any transactions or investments.

© Compass Point Research & Trading, LLC 2013. All rights reserved. Reproduction or quotation in whole or part without permission is forbidden.