

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

January 14, 2015

Federal Reserve Bank of New York

Committee attendees:

Nicole Arnaboldi, Credit Suisse Group
Louis Bacon, Moore Capital Management, LP
James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Britt Harris, Teacher Retirement System of Texas
Joshua Harris, Apollo Management
Alan Howard, Brevan Howard

Paul T. Jones, Tudor Investment Corp.
Derek Kaufman, Citadel LLC
Michael Novogratz, Fortress Investment Group LLC
Rick Rieder, BlackRock, Inc
Jes Staley, Blue Mountain Capital Mgmt, LLC
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
Mark Cabana
James Egelhof
Tom Kennedy
Sandy Krieger
Sandra Lee
Lorie Logan
Meg McConnell

Alberto Musalem
Michael Nelson
Anna Nordstrom
Simon Potter
Matthew Raskin
Michael Schetzel
Luis Uranga
Kevin Stiroh

At the beginning of the meeting, Federal Reserve Bank of New York (FRBNY) legal counsel circulated and discussed the Committee's antitrust guidelines as part of the standard procedure for the first meeting of the year. Counsel highlighted particular behaviors that are inappropriate and unlawful for the Committee—such as efforts to set prices or to limit access to the market. Committee attendees were directed to review the guidelines and to reach out to FRBNY legal counsel or to their own firm's internal counsel should they have questions. Committee attendees were also directed to circulate the document with those in their organization that may assist in Committee efforts.

Domestic Developments

Committee attendees discussed the outlook for U.S. growth and inflation and their expectations for monetary policy. Overall, they noted that real activity data continue to suggest a gradual improvement in the economic outlook, particularly in comparison to economic conditions in some other developed countries. Committee attendees acknowledged that indicators of realized and expected inflation continue to be subdued or declining, and the probability of inflation overshooting the FOMC's 2 percent inflation goal, in the near term, had diminished somewhat. Global disinflationary factors and broad commodity price declines were cited as the primary drivers behind the decline in market-implied measures of inflation compensation.

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Committee attendees continue to see the risks of raising the target federal funds rate too soon as outweighing the risks of a later liftoff. Most pointed to the market-implied path of the target rate derived from interest rate futures and forwards, which is below the median of FOMC participants' Summary of Economic Projections (SEP), as consistent with this view. A few committee attendees felt that the divergence in the market-implied path of the target rate relative to the median SEP projections signals that the market believes the FOMC should be patient in raising the target rate or that a premature liftoff could require a slower and shallower path of monetary policy normalization. Meanwhile, a few others suggested monetary policy easing initiatives abroad were biasing short and long-dated domestic rates lower through a global portfolio balance channel. Committee attendees generally expect realized financial market volatility to be elevated, relative to recent years, as monetary policy normalizes.

Global Developments

Committee attendees largely felt that supply dynamics were the preeminent driver behind oil price declines. Most pointed to structural oversupply from larger than expected North American shale production and OPEC's decision to keep oil production unchanged in the face of declining prices. A few members felt declining demand, particularly from China, was also partially contributing to recent oil price declines. Committee attendees generally felt that oil prices could decline further; however, expectations for the near-term price of oil varied.

Committee attendees discussed the outlook for additional easing measures from the European Central Bank (ECB). They felt that a sovereign debt purchase program was most likely to be announced at the January ECB meeting. Committee attendees had varying expectations regarding the size and composition of the program. In response to additional ECB easing measures, most expected that the euro would continue to depreciate, core and peripheral euro area sovereign debt yields would decline, and European equity indices would increase.

Outlook

The meeting concluded with a roundtable discussion of some of the main upside and downside risks to the global economy in the year ahead. Committee attendees discussed expectations for monetary policy divergence between the U.S. and other developed market central banks. Most expect the FOMC to raise the target rate in 2015, while the ECB and Bank of Japan continue with highly accommodative monetary policies. Committee attendees felt that expected policy divergence would support additional broad based appreciation of the U.S. dollar. A few felt that emerging market asset prices would underperform during domestic monetary policy normalization.