



Twist and Shout: The Limits of U.S. Monetary Policy

Tuesday, May 1, 2012; 9:30 AM - 10:45 AM

Moderator:

[Steve Liesman](#), Senior Economics Reporter, CNBC

Speakers:

[Charles Evans](#), President and CEO, Federal Reserve Bank of Chicago

[Dennis Lockhart](#), President, Federal Reserve Bank of Atlanta

[Scott Minerd](#), Chief Investment Officer, Guggenheim Partners

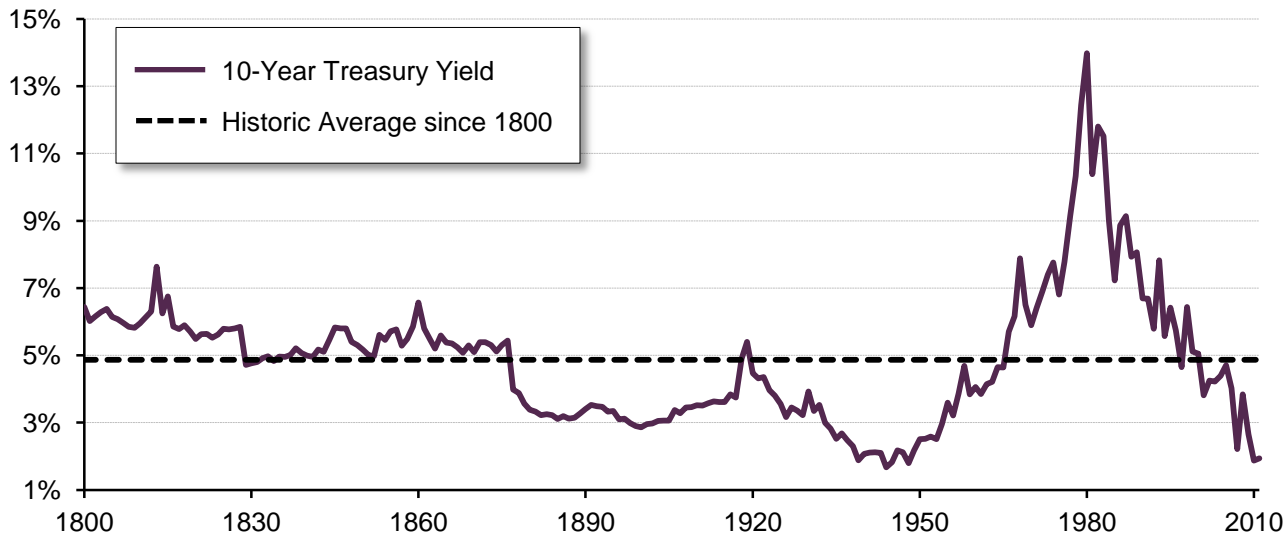
[Cliff Noreen](#), President, Babson Capital Management

[David Zervos](#), Managing Director and Chief Market Strategist, Jefferies & Co. Inc.



Scott Miner's slides

U.S. 10-Year Treasury Rates Since 1800



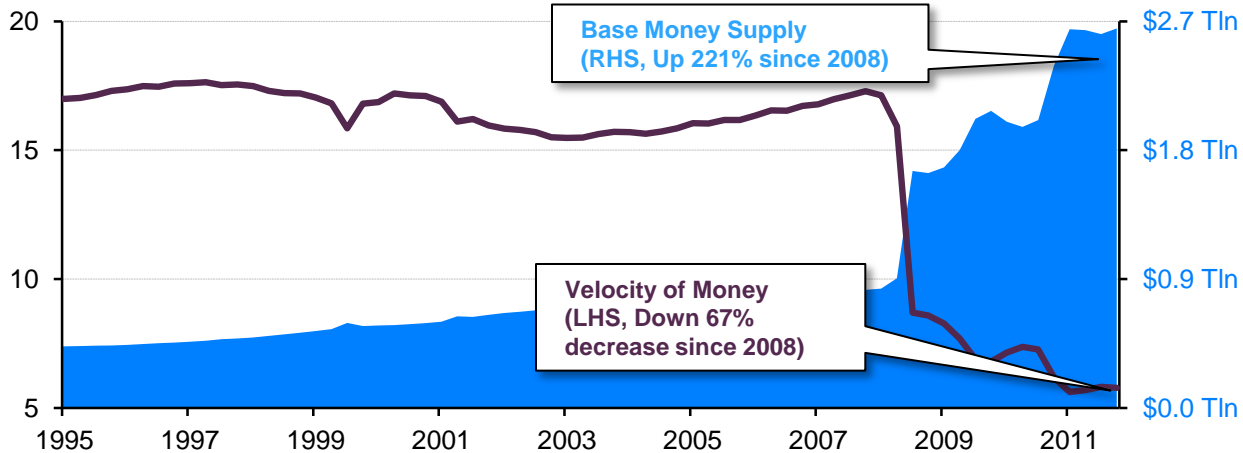
Source: Federal Reserve.

Contraction in the Velocity of Money Has Offset Fed's Money Supply Expansion



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The Base Money Supply (M0) vs. The Velocity of Money* in the U.S.



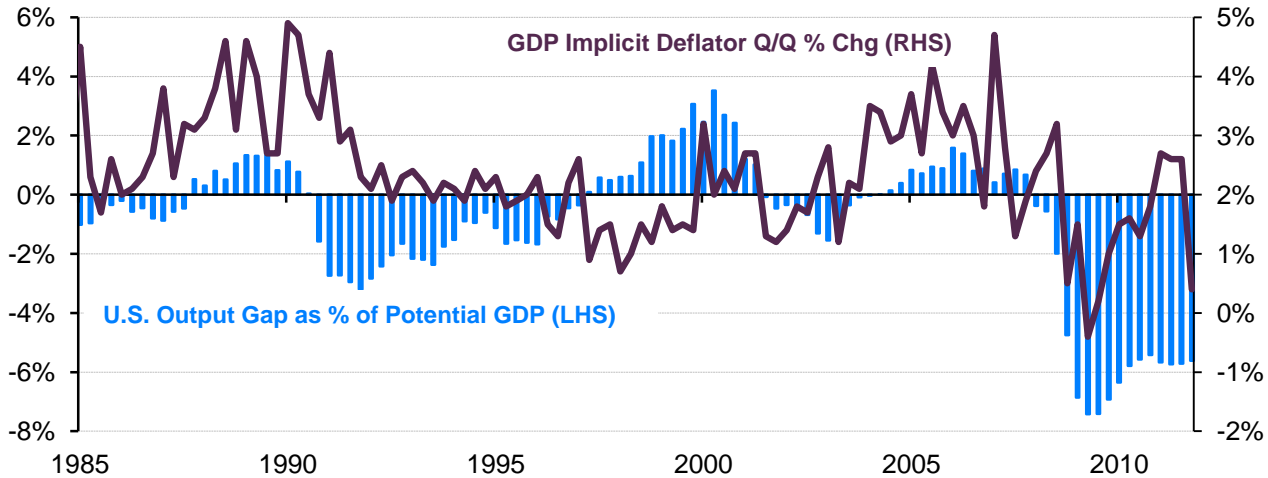
Source: Bloomberg GDP CUR\$ Index, ARDIMITBA Index. Data as of 1Q2012. *Note: The velocity of money is calculated by dividing the nominal GDP by the money base (M0).

Negative Output Gap Suggest a Period of Low Inflation



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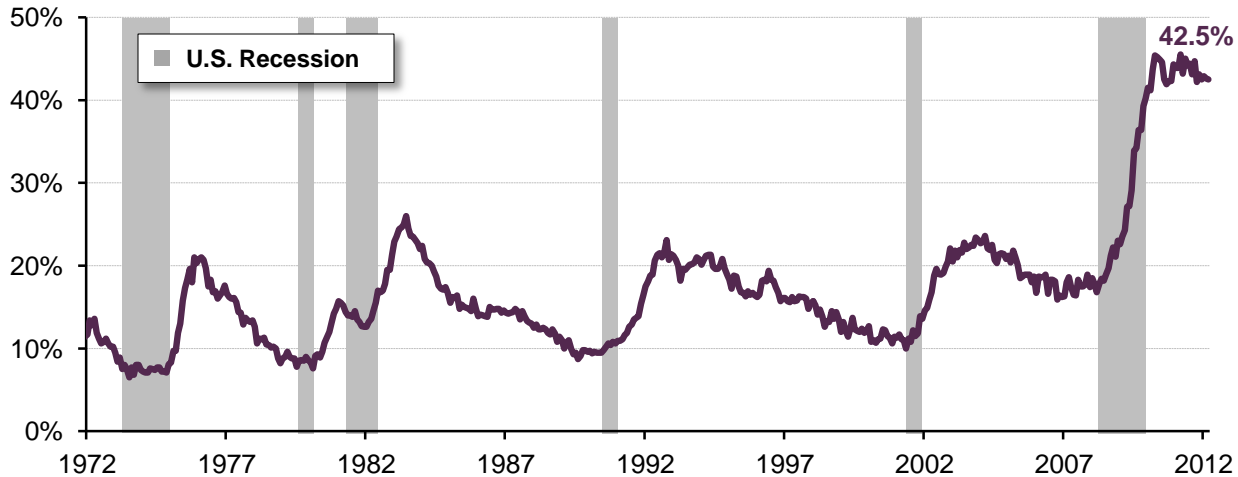
U.S. Household Debt Payment as a % of Disposable Income



Source: Haver Analytics, Guggenheim Investments. Data as of 12/31/2011.

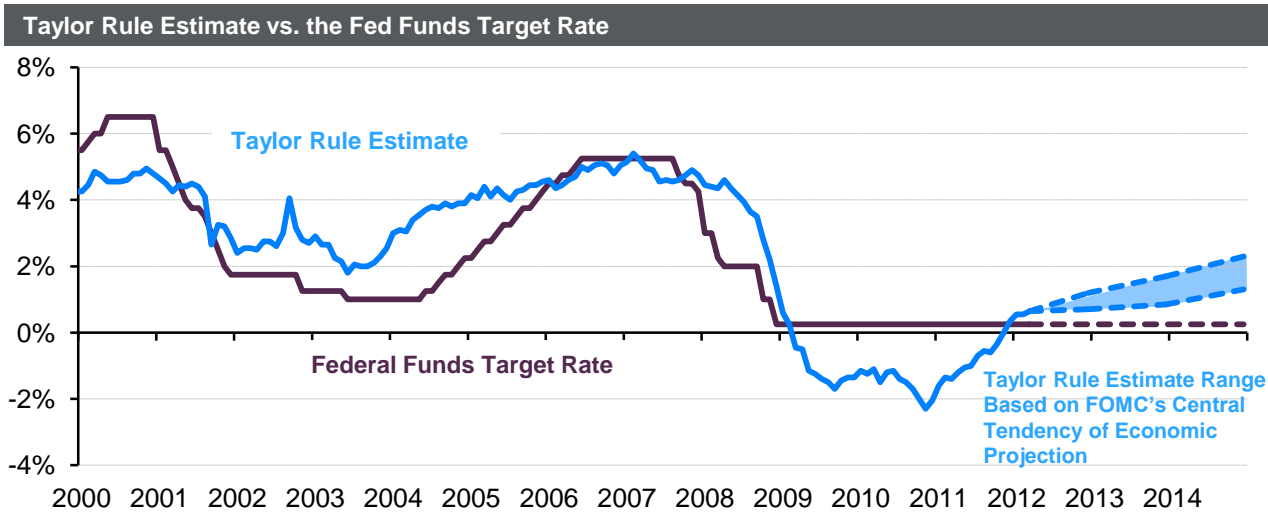
U.S. Long Term Unemployment

U.S. Long-term Unemployed as a Percent of Total Unemployed



Source: Haver Analytics, Guggenheim Investments. Data as of 3/31/2012.

Taylor Rule Estimate vs. the Fed Funds Target Rate



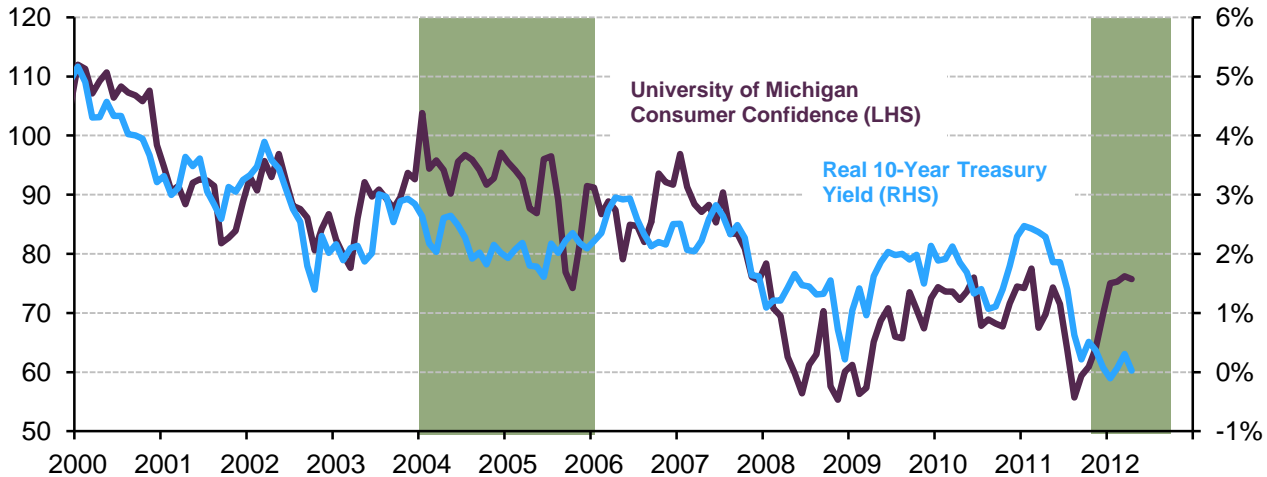
Source: Federal Reserve, Bloomberg and Guggenheim Investments. Data as of 4/25/2012.

Rebound in Consumer Confidence Suggests Real Treasury Yield Should Rise



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Consumer Confidence vs. Real Treasury Yield*

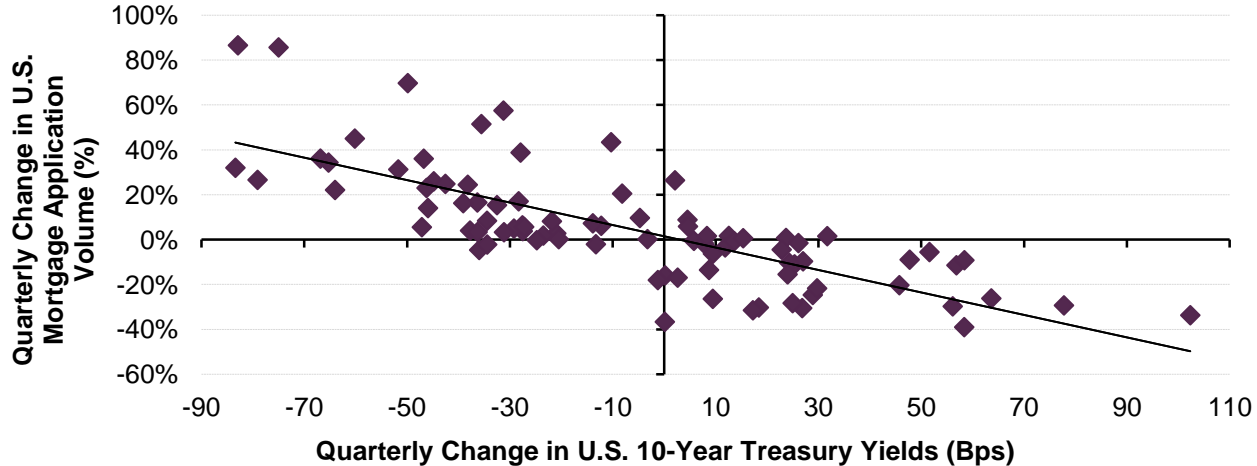


Source: Bloomberg, Guggenheim Investments. Data as of 4/23/2012. *Note: The real 10-year treasury yield is calculated by subtracting the core PCE deflator rate from the nominal 10-year yield .

Rising Interest Rates Will Undermine Housing Activities



Changes in Interest Rates and Home Mortgage Applications (1990 – Present)

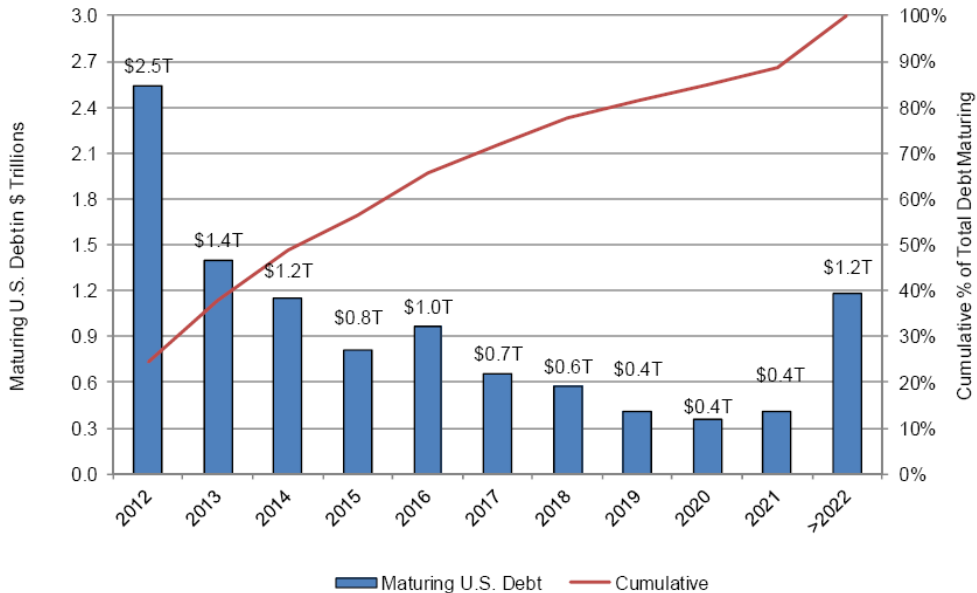


Source: Mortgage Bankers Association, Bloomberg, Guggenheim Investments. Data as of 3/31/2012.



Cliff Noreen's slide

Over 70% of U.S. public debt (net) matures in next 5 years

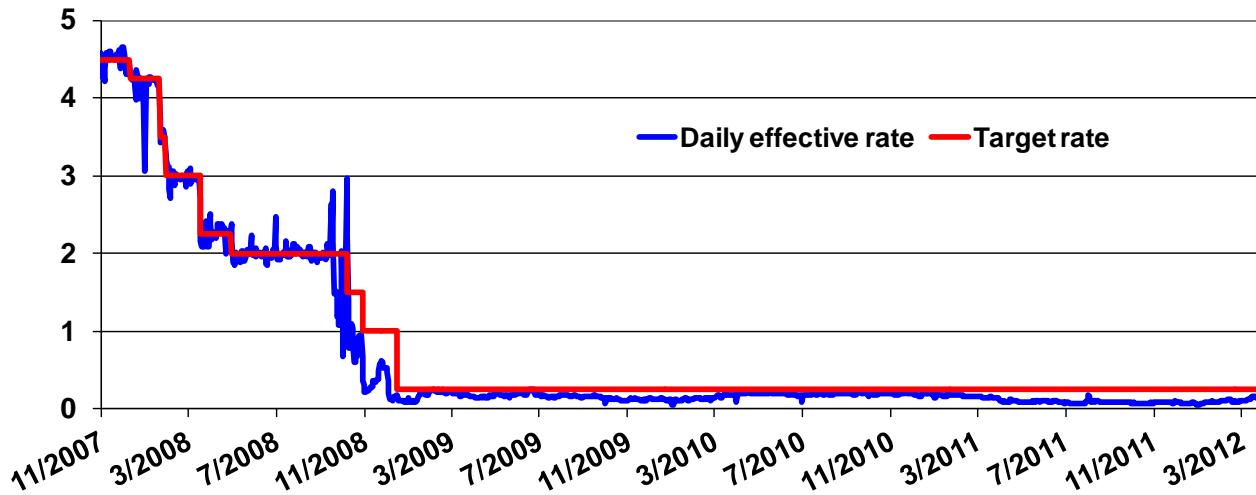




Additional slides

Federal funds rate stays exceptionally low

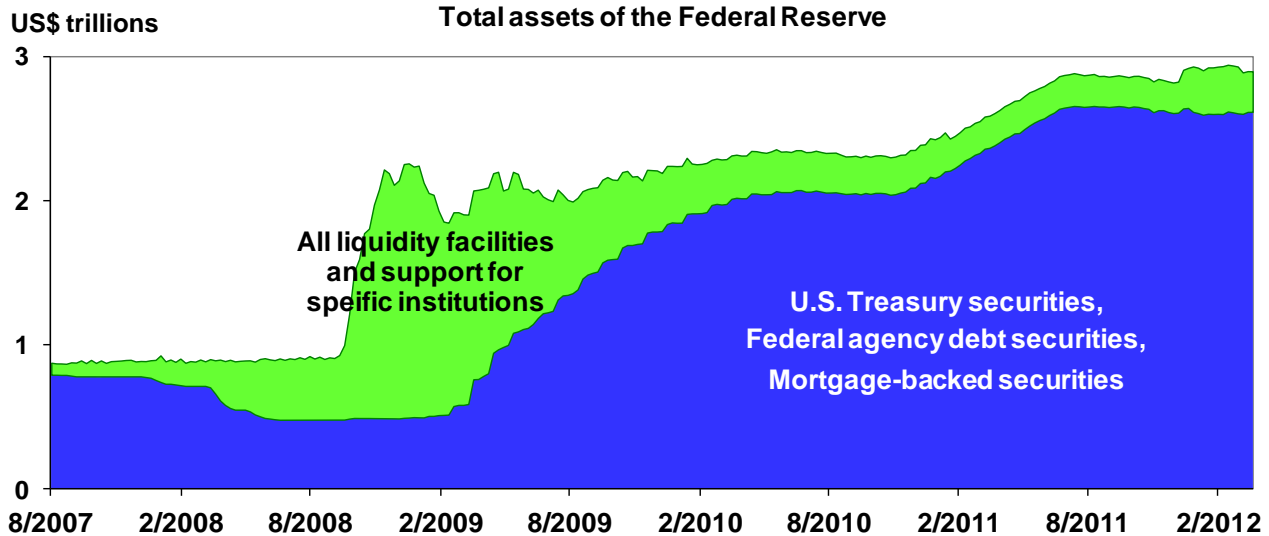
U.S. Federal funds rate (%)



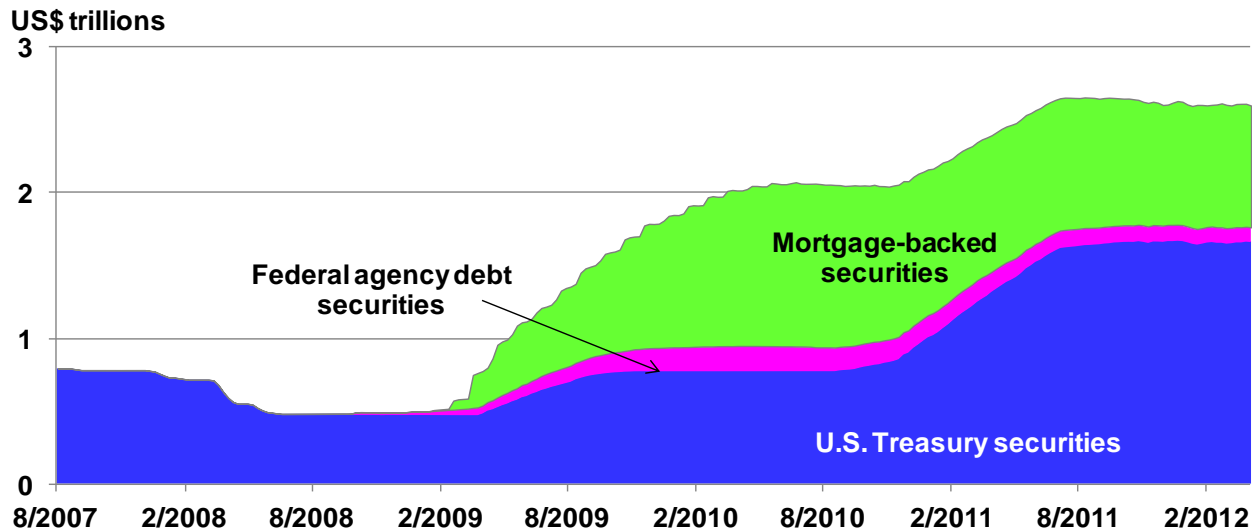
Source: Federal Reserve Board.



Large-scale asset purchases by the Fed

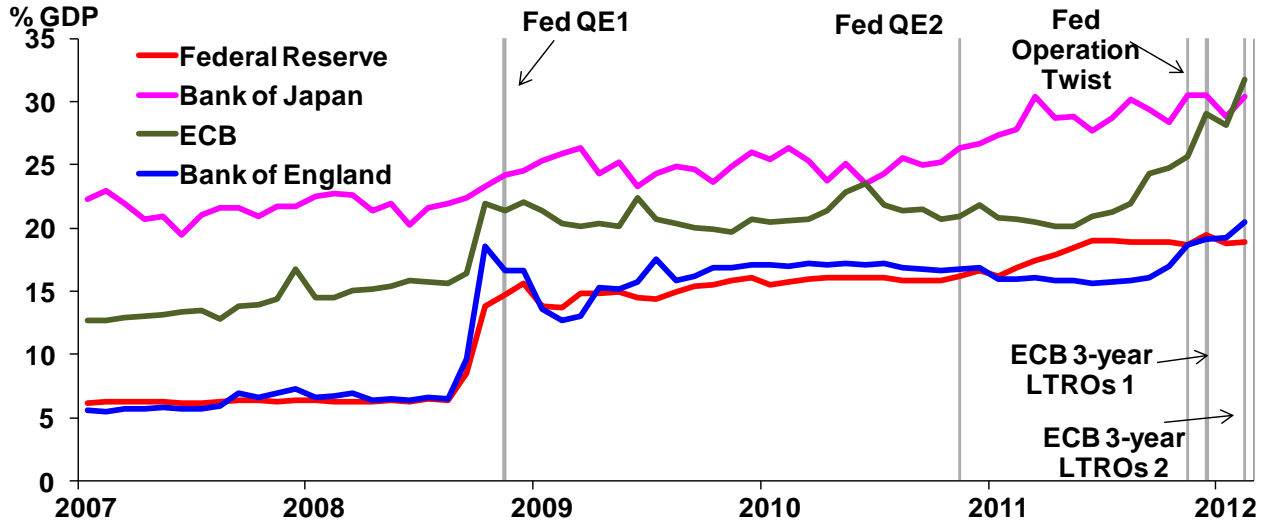


Federal Reserve security holdings by type



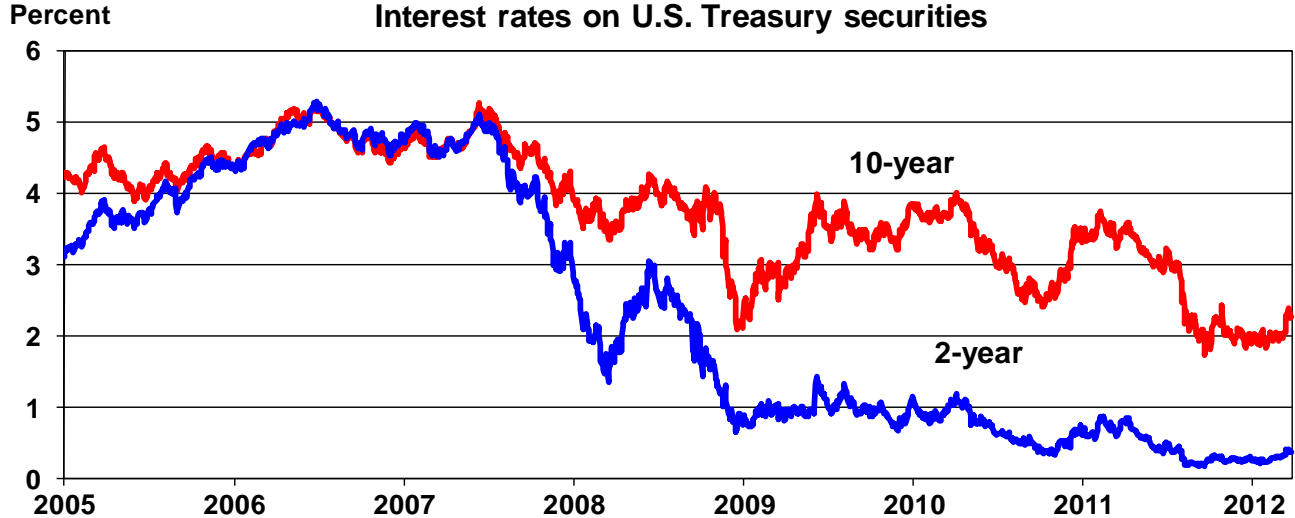


Central bank balance sheet expansion



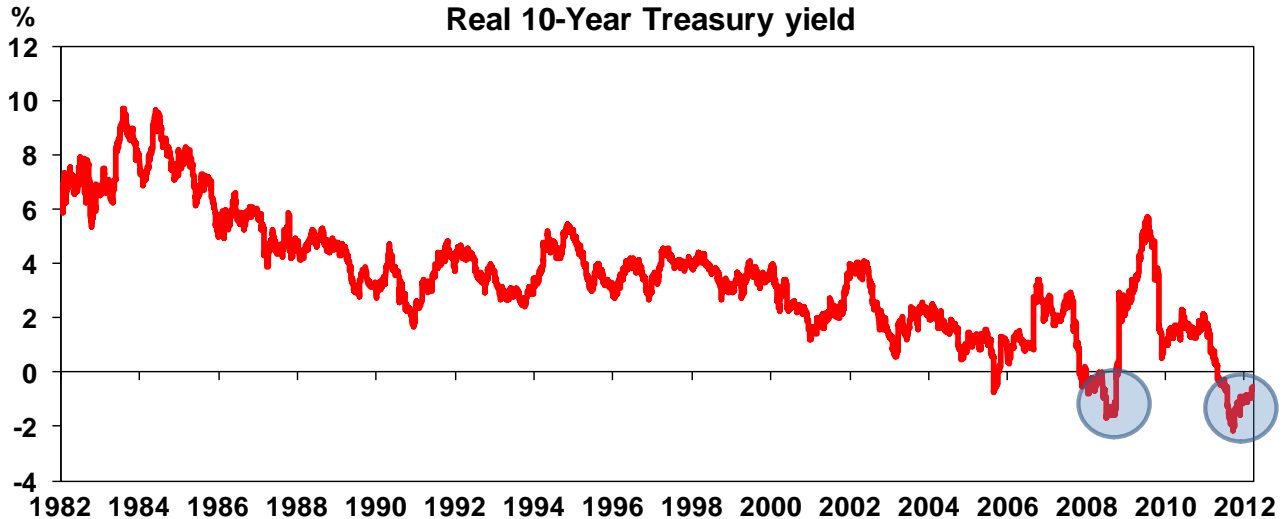
Note: LTROs = longer-term refinancing operations.
Source: IMF Global Financial Stability Report, April 2012.

U.S. Treasury yields remained low by historical standards



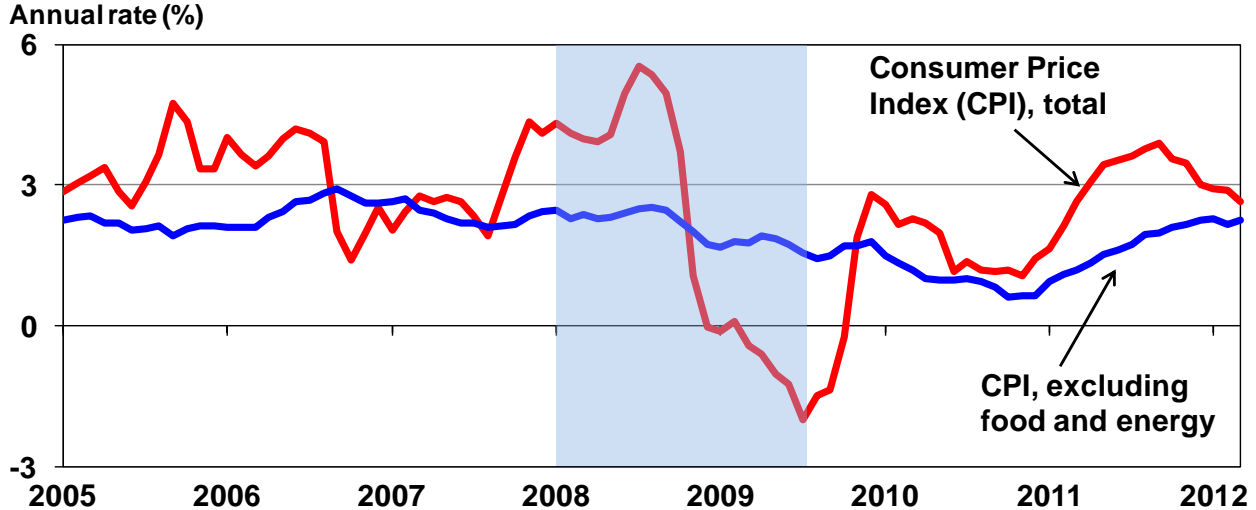
Source: Federal Reserve.

Real interest rate is near zero; negative in some periods



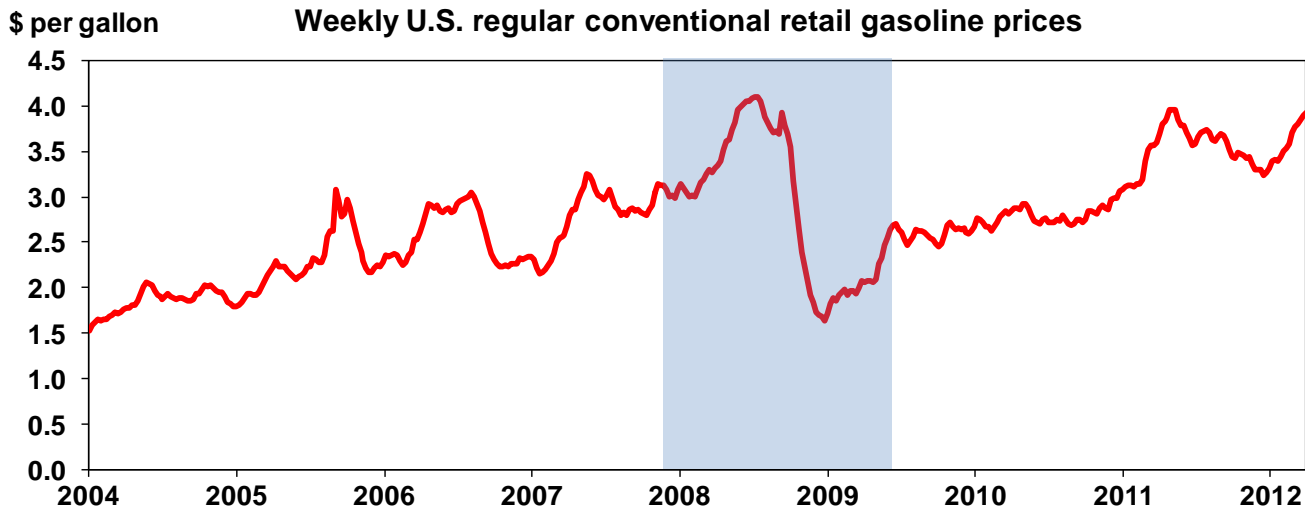
Sources: Federal Reserve, Federal Reserve Bank of St. Louis.

Annual inflation rate has declined, but core inflation continued to rise



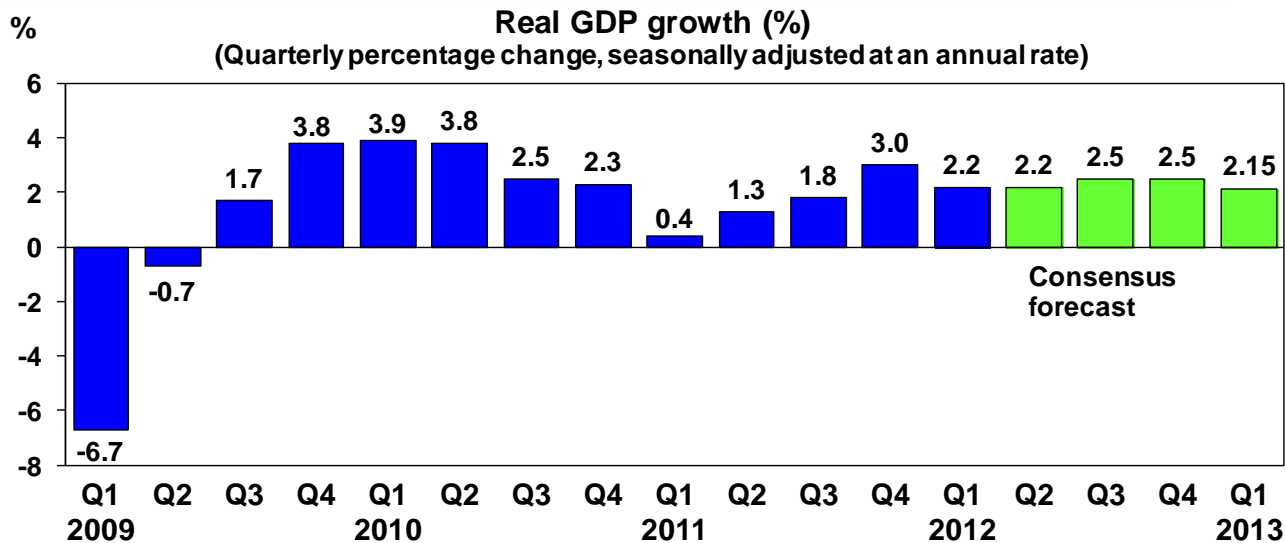
Source: Federal Reserve Bank of St. Louis.

Rising gasoline prices



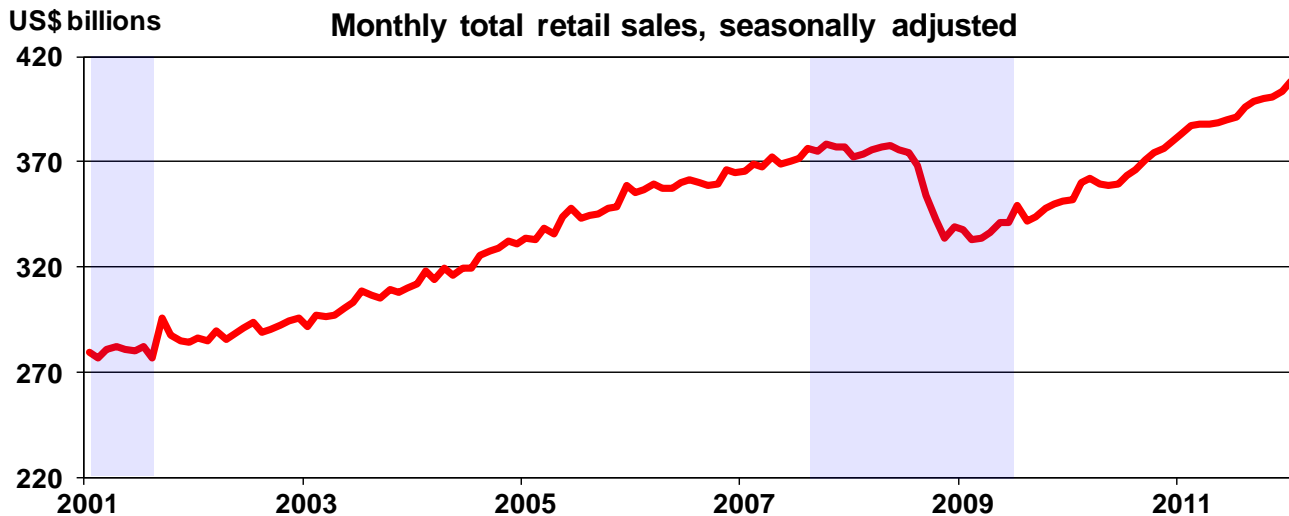
Source: U.S. Energy Information Administration.

U.S. economy expands at a slow rate



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Consumer spending continues to be strong

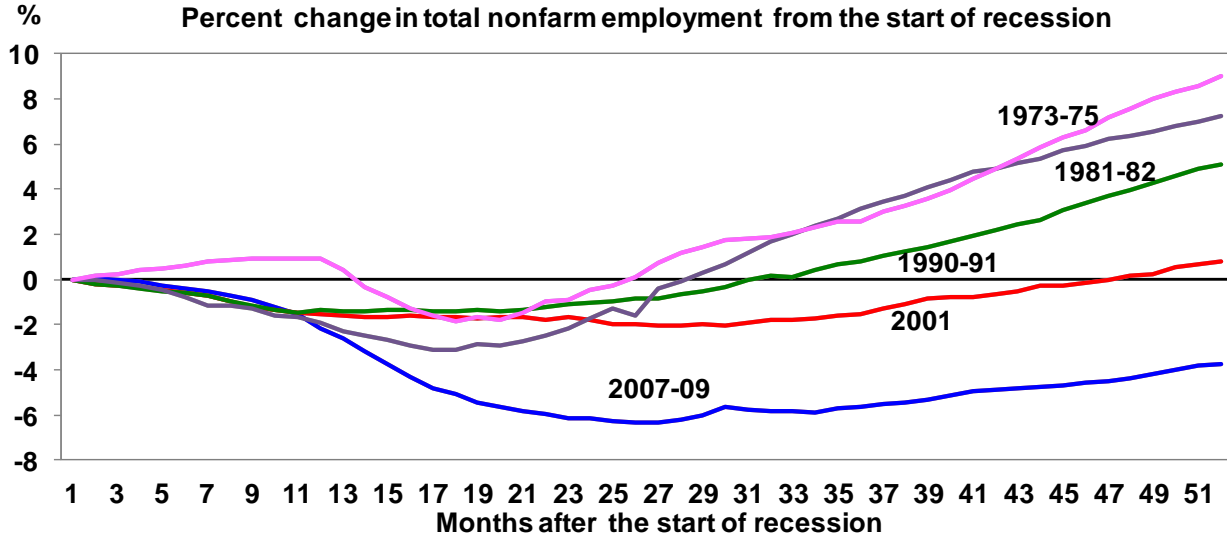


Weak recovery in the labor market

Compared with previous recoveries

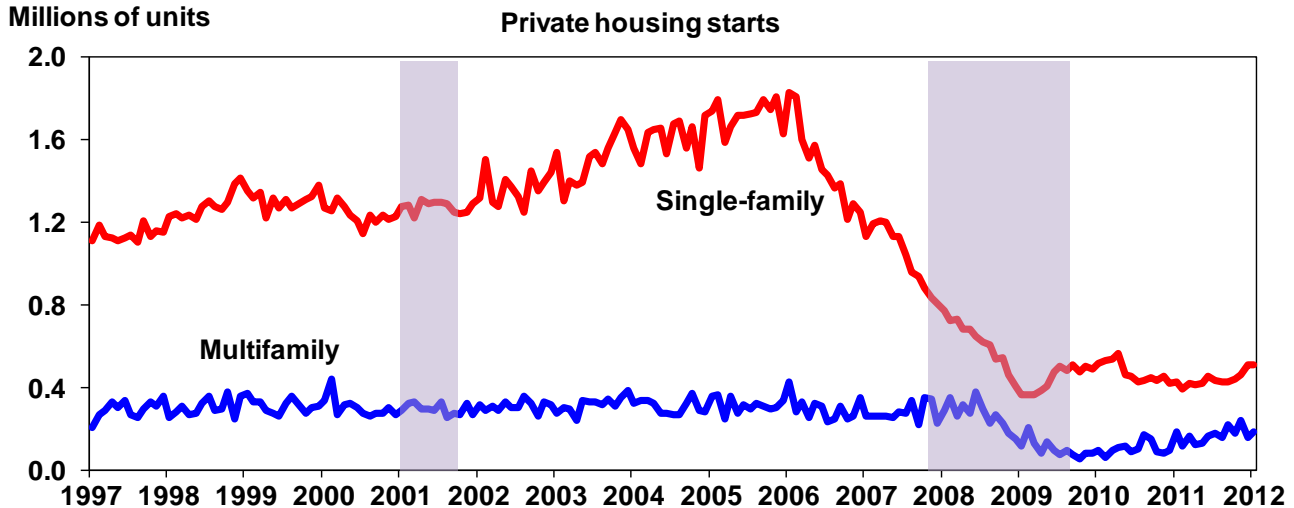


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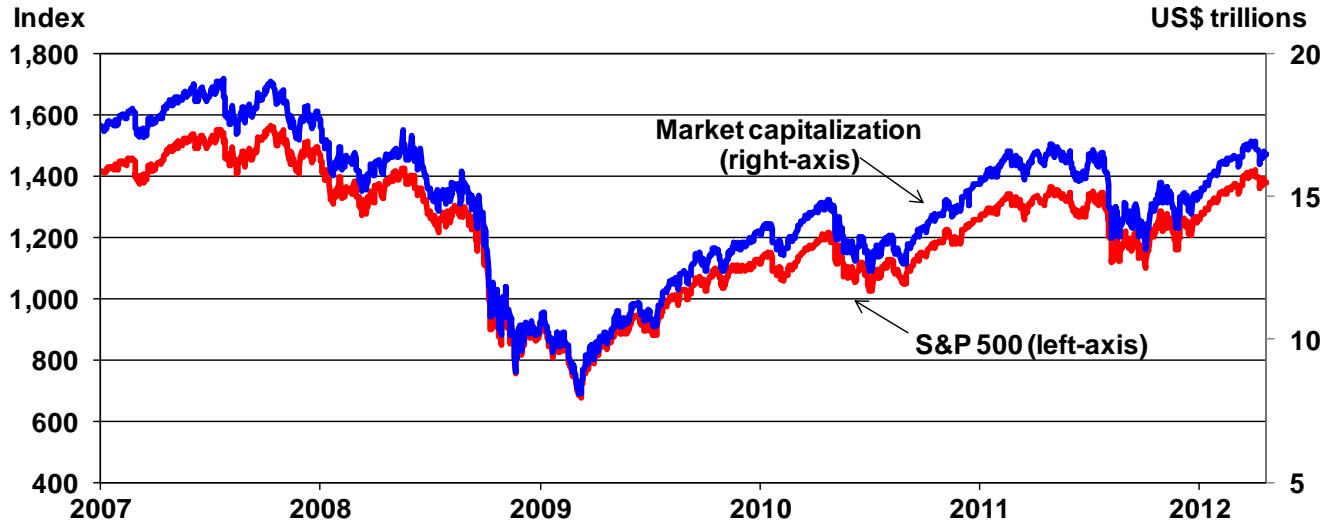
Sources: U.S. Bureau of Labor Statistics, Milken Institute.

U.S. economy is improving without the housing market recovery



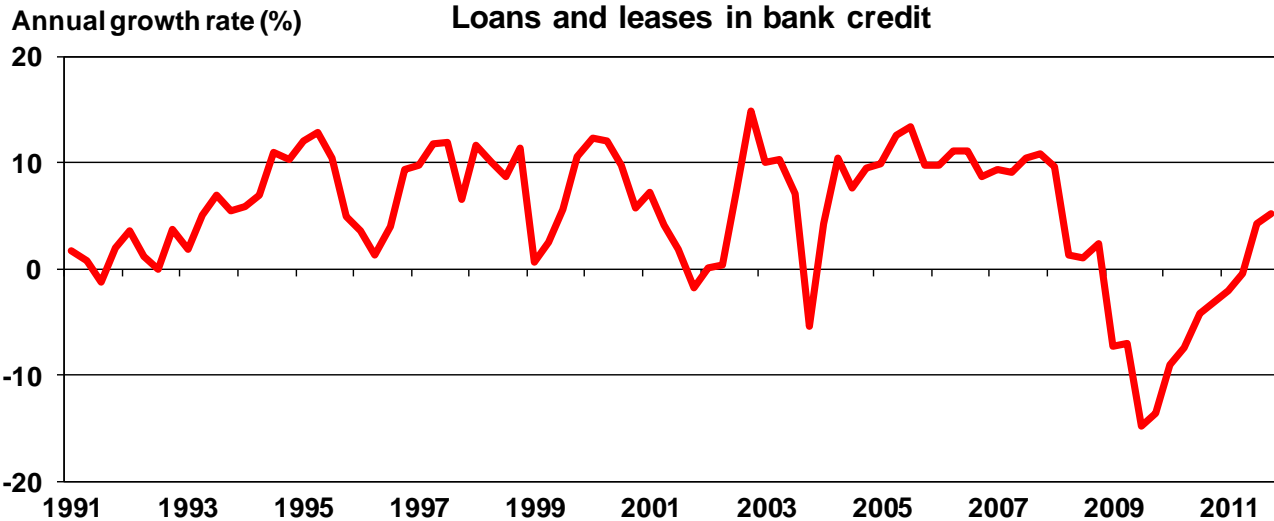
Source: Bureau of the Census, U.S. Department of Commerce.

The U.S. stock market is approaching its pre-crisis levels



Source: Bloomberg.

Lending markets started to recover after a significant decline



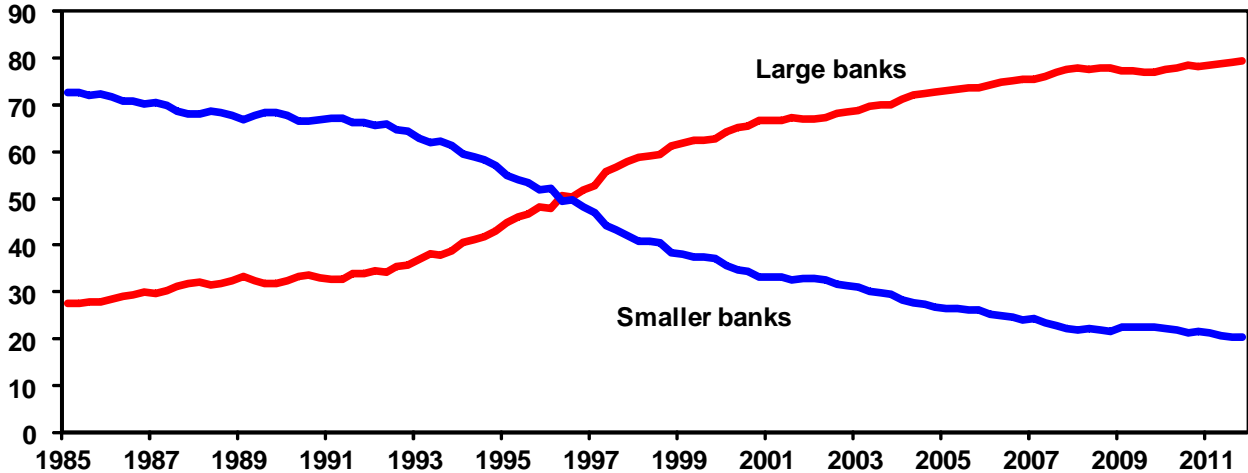
Source: Federal Reserve.

Large banks become larger

Share of assets of all U.S. depository institutions



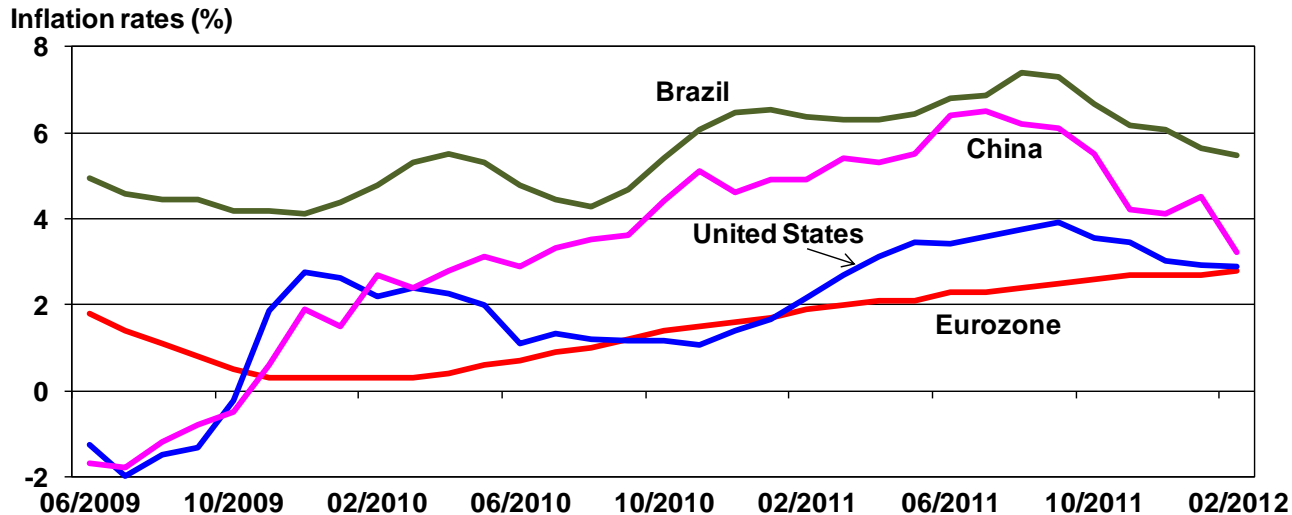
Percent of total banking assets



Note: Large banks are banks with assets > \$10 billion.

Source: Federal Deposit Insurance Corporation.

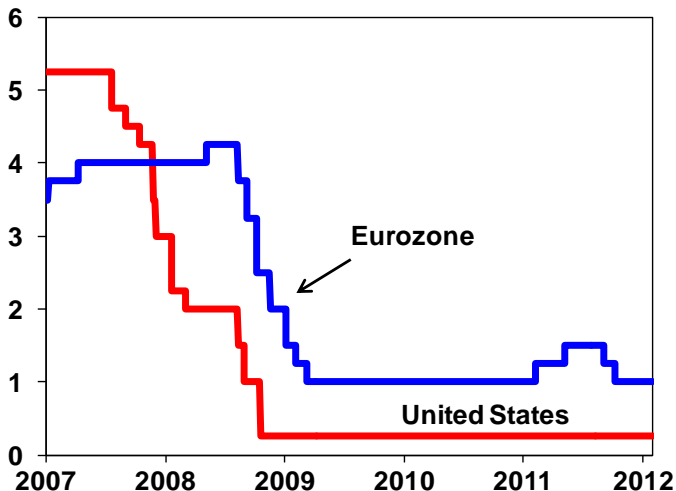
Global inflationary pressures remain



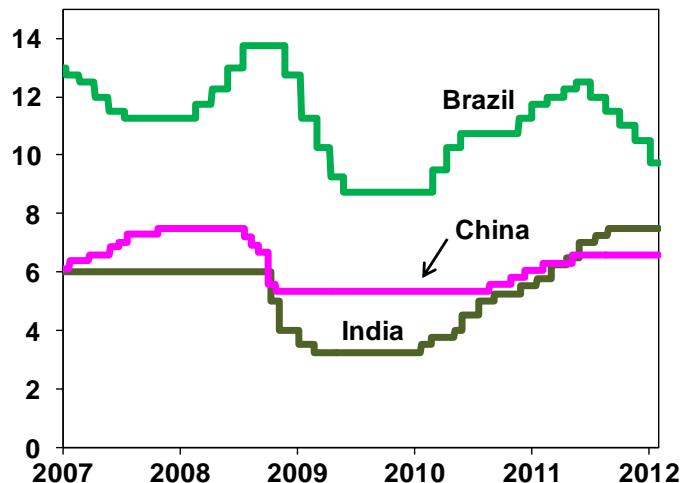
Sources: Eurostat, Federal Reserve Bank of St. Louis, Datastream.

Monetary policy stance: Selected countries

Central bank rate (%)



Central bank rate (%)

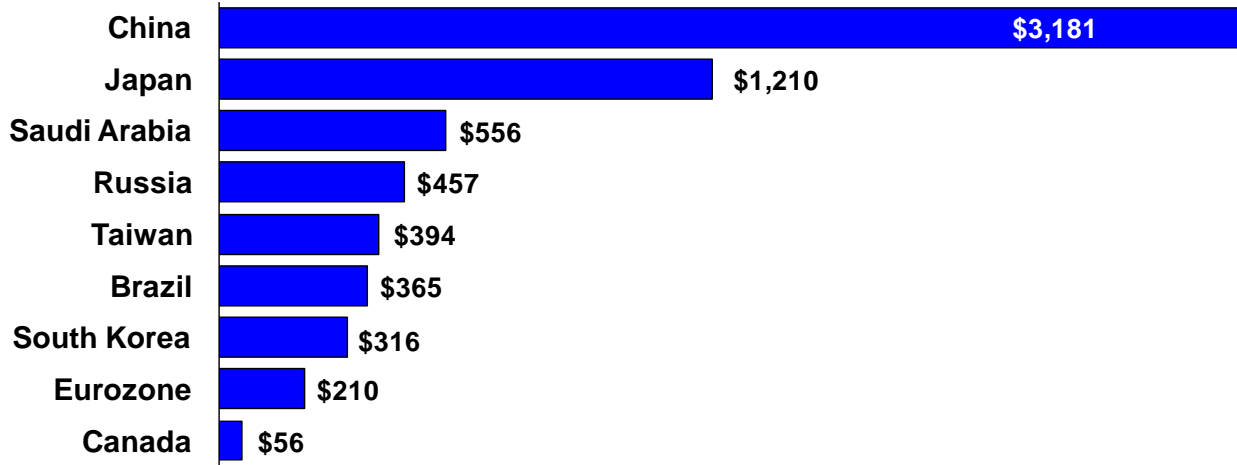


Source: Bloomberg.

China's foreign exchange reserves exceeds US\$3 trillion



International reserve assets (US\$ billions)

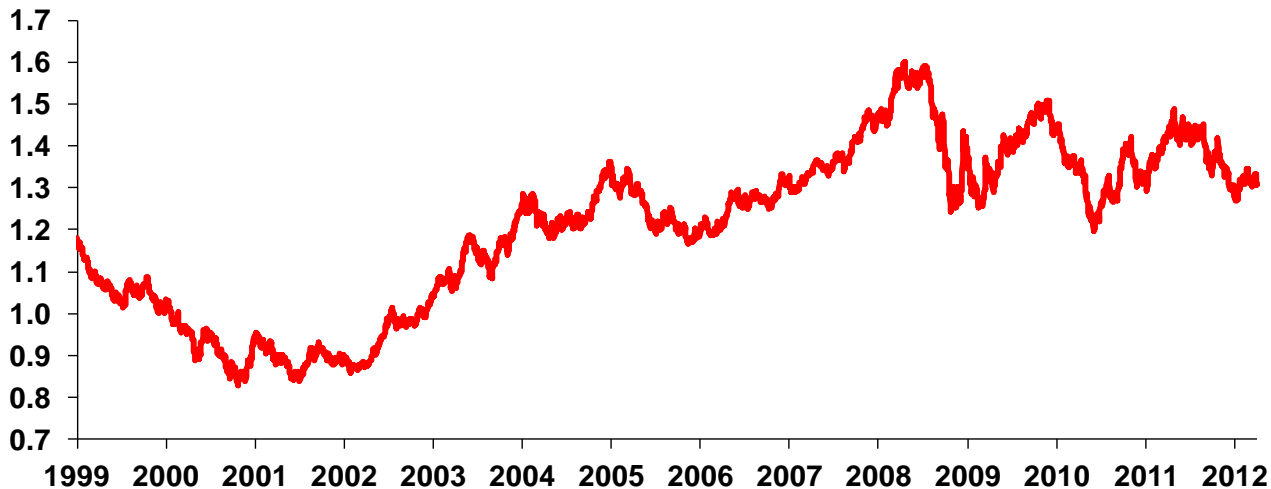


Note: the latest available data as of April 6, 2012.

Source: Bloomberg.

U.S. dollar / Euro foreign exchange rate

U.S. dollar/euro



Source: Federal Reserve.