

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

April 15, 2015

Federal Reserve Bank of New York

Committee attendees:

Nicole Arnaboldi, Credit Suisse Group	Alan Howard, Brevan Howard
Tim Buckley, Vanguard	Paul T. Jones, Tudor Investment Corp.
James Chanos, Kynikos Associates	Scott Miner, Guggenheim Partners
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt	Derek Kaufman, Citadel LLC
Dawn Fitzpatrick, O'Connor	Michael Novogratz, Fortress Investment Group LLC
Britt Harris, Teacher Retirement System of Texas	Jes Staley, Blue Mountain Capital Mgmt, LLC
Joshua Harris, Apollo Management	David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair	Alberto Musalem
Mark Cabana	Michael Nelson
Tom Kennedy	Simon Potter
Sandy Krieger	Matthew Raskin
Sandra Lee	Michael Schetzel
Lorie Logan	Kevin Stiroh
Jamie McAndrews	Luis Uranga
Meg McConnell	Benedict Wensley

Domestic Developments

Committee attendees discussed the outlook for the U.S. economy and their expectations for monetary policy. Overall, they noted their expectation that real activity over the first quarter was likely to be weak compared to 2014; however, they expected growth to rebound later in the year. Committee attendees continued to characterize indicators of realized inflation as subdued and consistent with inflation indicators in other developed markets. Meanwhile, the labor market was viewed as at or near full employment.

Committee attendees suggested the FOMC is likely to increase the federal funds target range during 2015. Most felt that the path of policy after liftoff is likely to be shallower than the FOMC expects, highlighting the discrepancy between the market-implied path of the target rate derived from interest rate futures and forwards and the median of FOMC participants' projections for the federal funds rate from the Summary of Economic Projections (SEP). Some suggested that the shallower market-implied path highlights the market's lack of confidence in the FOMC's economic outlook. Meanwhile, a few others felt that the discrepancy is accounted for by term premiums and that market prices will adjust towards the SEP dots relatively quickly after the FOMC first raises the target range. Committee attendees also discussed the normalization of monetary policy and suggested that the FOMC should retain flexibility in its strategy. Monetary policy divergence between the Federal Reserve and other developed market central banks was cited as the dominant driver behind the appreciation of the U.S. dollar.

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Global Developments

ECB easing measures were viewed as largely effective thus far. Committee attendees highlighted the slight improvement in euro area economic indicators, but generally suggested the path to sustained economic progress would be protracted. Committee attendees cited both negative deposit rates and the ECB's purchase program as easing euro area financial conditions, with most concluding that negative rates had been particularly impactful.

Committee attendees generally expected oil prices to be range-bound in the near term as U.S. shale production declines. Despite the notable decline in oil prices since last summer, Committee attendees noted that energy sector defaults have been relatively minimal. They suggested most energy borrowers are hedged through the end of the year and defaults will likely be minimal during 2015. Given the sharp declines in oil prices since last summer Committee attendees suggested risk premiums on energy credits should be wider, but global central bank easing measures may be keeping them tight.

Committee attendees suggested that economic activity in China continues to slow and remains overly reliant on real estate investment. Most expected Chinese officials to continue easing policy in the near term. Committee attendees expected macroeconomic fundamentals to warrant a depreciation of the renminbi; however, political influences and broader official currency intervention may slow any such move.

Financial Landscape

The meeting culminated with a discussion of liquidity conditions with Committee attendees largely concluding that events similar to October 15th are likely to be more prevalent as regulations push traditional market makers, such as primary dealers, out of this activity. As traditional market making activity diminishes, Committee attendees expected bid ask spreads to widen and the cost of price discovery to increase. A few downplayed the significance of the change in market structure, suggesting non-traditional market participants will replace primary dealers. Meanwhile, others felt the change in market structure was more problematic as expected and actual liquidity may be significantly mismatched. They highlighted the corporate credit market where liquidity is particularly constrained. Committee attendees suggested liquidity concerns will likely lead to a standardization of products and prompt some entities to streamline their business models.