

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

October 14, 2015

Federal Reserve Bank of New York

Committee attendees:

Nicole Arnaboldi, Credit Suisse Group
Tim Buckley, Vanguard
James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Dawn Fitzpatrick, O'Connor
Joshua Harris, Apollo Management

Alan Howard, Brevan Howard
Scott Miner, Guggenheim Partners
Michael Novogratz, Fortress Investment Group LLC
Rick Rieder, BlackRock, Inc.
Jes Staley, BlueMountain Capital Mgmt, LLC
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
Tobias Adrian
Jim Bergin
James Egelhof
Joyce Hansen
Thomas Kennedy
Sandra Lee

Meg McConnell
Alberto Musalem
William O'Boyle
Simon Potter
Matthew Raskin
Michael Strine
Benedict Wensley

Global Developments

Committee attendees discussed recent concerns over China's economic growth and their spillover to global financial markets. They judged that a sharp contraction in the Chinese economy would severely slow global growth. Committee attendees generally viewed the knock-on effects of slowing Chinese growth on commodity markets, in particular the metals sector, as substantial.

Committee attendees discussed recent trends in the oil market. They generally viewed strong growth in U.S. production, in combination with OPEC countries' desire to maintain market share by not cutting production, as the primary causes for the current supply and demand imbalance in the oil market. Committee attendees generally expected U.S. production to decline in 2016 and prices to eventually stabilize.

Committee attendees felt that the drop in oil prices should serve to support consumption in the U.S., outweighing the negative impact of job losses in extractive industries. They briefly discussed the correlation of movements in spot oil prices to changes in measures of five-year inflation compensation five years ahead. However, they generally did not have a strong view on why changes in spot oil prices today should impact far-forward inflation compensation.

Committee attendees discussed their views on the global economy and monetary policy divergence among advanced-economy central banks. They were generally most optimistic about the U.S. economic outlook and expected that a normalization of monetary policy would occur in the near term. By contrast, other central banks—notably the ECB and BoJ—were seen as more likely to ease policy in the near term.

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Domestic Developments

Committee attendees generally agreed that the turbulence in U.S. financial markets seen in August and September was primarily related to concerns over a sharper-than-expected slowdown in Chinese growth, rather than deterioration in the outlook for the U.S. economy. They generally saw the impact on U.S. inflation resulting from a stronger dollar as transitory, and judged that labor market conditions in the U.S. had continued to improve since the last IACFM meeting, despite a slowdown in payroll growth.

Committee attendees discussed the divergence between the market-implied path of the policy rate and the views expressed recently in FOMC communications and by Fed officials. They discussed a number of reasons for the divergence, including the persistence of downside risks to the global economic outlook as well as the view that the Committee has consistently been too optimistic about the likely path of the U.S. economy.

Financial Landscape

Committee attendees discussed recent trends in financial market liquidity. Generally, they felt that liquidity in the equity market had not materially changed over recent years, but that conditions in high-yield bond and foreign exchange markets had experienced some worsening. In discussing the potential consequences, Committee attendees felt that lower market liquidity would result in less risk taking and smaller positions being taken by asset managers. The shifting regulatory environment—specifically, its impact on bank balance sheet management—and evolving market structures were cited as factors contributing to a lower liquidity environment. Committee attendees noted the importance of developing a greater understanding of high-frequency trading platforms, their interactions with other market participants, and their ultimate impact on market liquidity.

Committee attendees expressed concern about the upcoming debt ceiling deadline, and noted that they were holding internal discussions around policies and strategies in the event that the deadline was reached without agreement to extend the Treasury's borrowing authority. While most expected that an agreement would be reached, they agreed that any missed payments on Treasury securities would have wide-ranging and unpredictable consequences.