

# Bianco Research L.L.C.

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www.biancoresearch.com

## Market Facts

### Final Assessment Of December 16<sup>th</sup> FOMC Meeting

By Howard L. Simons (847) 304-1511

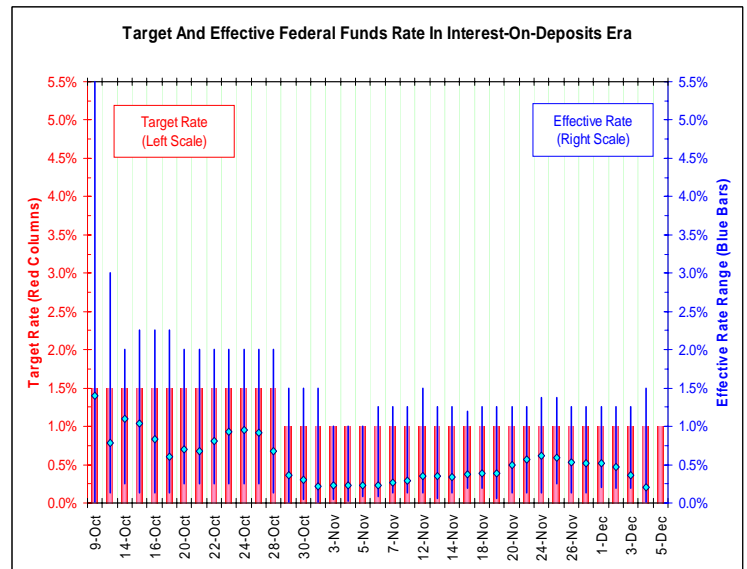
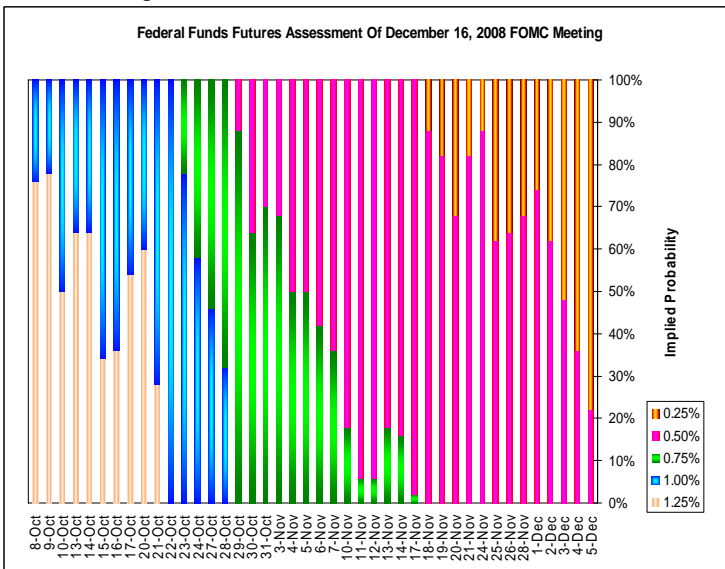
December 8, 2008

We noted [previously](#) federal funds futures are simply an assessment where the effective rate will be. Moreover, as the Federal Reserve is paying interest on reserve deposits from member banks now, the effective federal funds rate and the overnight index swap have become the measures to watch, not the target rate.

The federal funds futures (left-hand chart) nominally embed a 78% probability of a 75 basis point cut in the target rate and a 22% probability of a 50 basis point cut in the target rate.

However, the Federal Reserve has allowed the effective federal funds rate (blue bars, right-hand chart) to stay well under the target rate (red columns) since the October 9<sup>th</sup> start of interest payments on reserves.

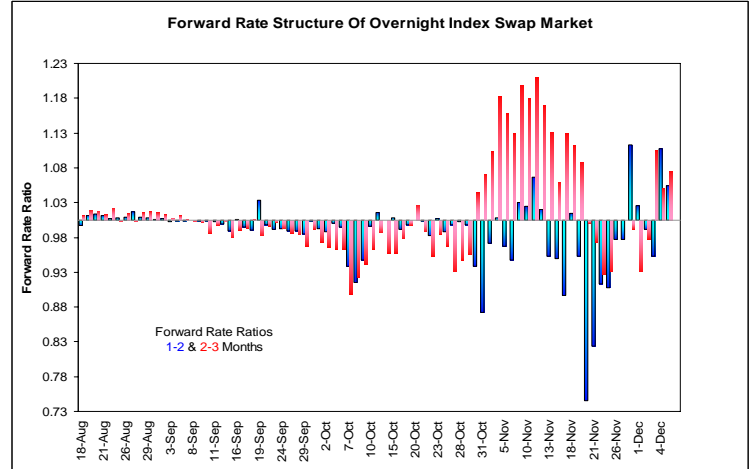
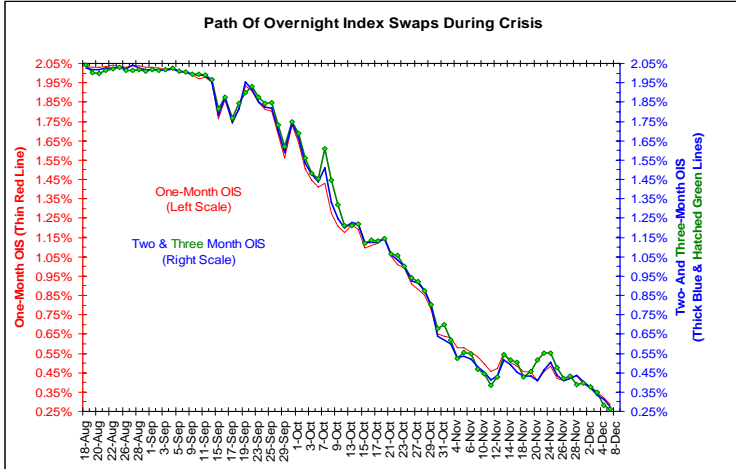
The effective rate has averaged 0.38% since the target rate was cut to 1.00% on October 29<sup>th</sup>. **Only a cut to a 25 basis point target rate on December 16<sup>th</sup> and a policy of keeping the effective and target rates aligned thereafter is consistent with the data.**



**Conclusion**

One-, two- and three-month OIS levels (red, blue and green lines, respectively, left-hand chart) all reached their lows on Friday after the release of the employment situation report.

The [forward rate ratios](#) between one- and two-month and two- and three-month OIS (blue and red columns, right-hand chart) continue to reflect expectations for an end to ever-lower effective federal funds rates after the new administration takes office, but this is starting to become an academic point at these levels. **Perhaps monetary policy will now be executed at the long end of the yield curve, as Chairman Bernanke hinted last Monday.**



## Bianco Research L.L.C.

1731 North Marcey, Suite 510  
Chicago IL 60614

Phone: (847) 304-1511

Fax (847) 304-1749

e-mail: [research@biancoresearch.com](mailto:research@biancoresearch.com)

<http://www.biancoresearch.com>

### **For more information about the contents/ opinions contained in these reports:**

**President** (847) 756-3599

James A. Bianco [jbianco@biancoresearch.com](mailto:jbianco@biancoresearch.com)

**Strategist/Analysts** (847) 304-1511

Howard L. Simons [hsimons@biancoresearch.com](mailto:hsimons@biancoresearch.com)

Greg Blaha [gblaha@biancoresearch.com](mailto:gblaha@biancoresearch.com)

Ryan Malo [rmalo@biancoresearch.com](mailto:rmalo@biancoresearch.com)

### **For subscription/service Information:**

**Arbor Research & Trading, Inc.**

**Director of Sales & Marketing** (800) 606-1872

Fritz Handler [fritz.handler@arborresearch.com](mailto:fritz.handler@arborresearch.com)

## Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260  
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail [inforequest@arborresearch.com](mailto:inforequest@arborresearch.com)

<http://www.arborresearch.com>

### **Domestic - For more information about Arbor Research & Trading and its services:**

#### New York Sales Office

The Chrysler Building, 405 Lexington Ave  
New York, NY 10174

Edward T. McElwreath [ed.mcelwreath@arborresearch.com](mailto:ed.mcelwreath@arborresearch.com)

Phone (212) 867-5326 Fax (212) 370-1218

### **International - For more information about Arbor Research & Trading and its services:**

#### London Sales Office

4 Broadgate, 2nd Floor, Room 57

London England EC2M 2QY

Phone 44-207-965-4784 Fax 44-207-965-4787

Neil Tritton [neil.tritton@arborresearch.com](mailto:neil.tritton@arborresearch.com)

Ben Gibson [ben.gibson@arborresearch.com](mailto:ben.gibson@arborresearch.com)

#### European Sales

James L. Perry [james.perry@arborresearch.com](mailto:james.perry@arborresearch.com)

Phone (847) 756-3510 Fax (847) 304-1595

Rich Kleinbauer [rich.kleinbauer@arborresearch.com](mailto:rich.kleinbauer@arborresearch.com)

Phone (41) 22 363-9229

#### Far East Sales

Robert Reynolds [robert.reynolds@arborresearch.com](mailto:robert.reynolds@arborresearch.com)

Phone (847) 756-3680 Fax (435) 647-3073