

U.S.

Fed Watch

March 1, 2011

Economic Analysis

Hakan Danis

hakan.danis@bbvacompass.com

Jeffrey Owen Herzog

jeff.herzog@bbvacompass.com

Semi-Annual Monetary Policy Report

Bernanke sees only a temporary effect from oil prices

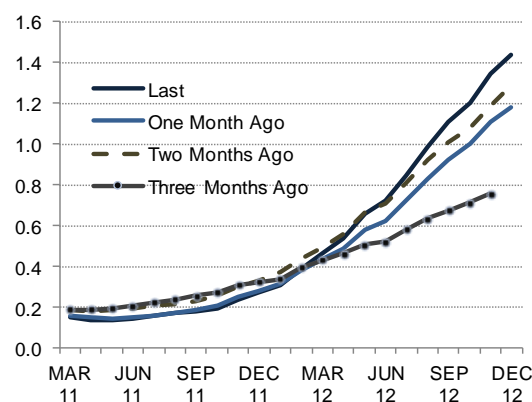
- Fed chairman largely sticks to same outlook as most recent FOMC releases
- Bernanke defends merits of large-scale asset purchases, Fed transparency
- The Fed is monitoring oil price increases and will respond as necessary

Bernanke Before the Senate

Federal Reserve Chairman Ben Bernanke's semi-annual testimony to Congress began today with a report on monetary policy in general. Bernanke's outlook and forecasts are not different from those revealed in the most recent FOMC minutes and statement. Of particular note were Bernanke's comments on recent increases in oil prices and their effect on inflation and economic growth. Similar to our comments in a previous [Economic Watch](#), Bernanke believes that the pass-through from oil prices to core inflation is limited and will lead to a temporary and modest increase in the consumer price index (CPI). However, the Chairman also said that sustained oil price increases would represent a threat to the Fed's dual mandate. In parallel with market expectations, Bernanke reiterated the weakness of the housing sector and highlighted the sluggishness of recent activity indicators. With regard to Commercial Real Estate (CRE), Bernanke commented during the Q&A session that the CRE situation is "marginally" better than the Fed's forecast some six months ago. A considerable amount of Bernanke's testimony was devoted to explaining the Large Scale Asset Purchase (LSAP) program and the Fed's transparency. Extraordinary monetary policy interventions during the crisis increased scrutiny of the Federal Reserve's transparency. One part of Bernanke's role today was to help alleviate these concerns in the Senate. The Chairman stressed the success of LSAPs by pointing to indicators of financial stability like improved spreads and higher expectations of economic growth. Overall, Bernanke's comments today reveal no surprises and are consistent with our existing baseline scenario for US monetary policy. Tomorrow Bernanke will give testimony to the House Financial Services Committee.

Chart 1

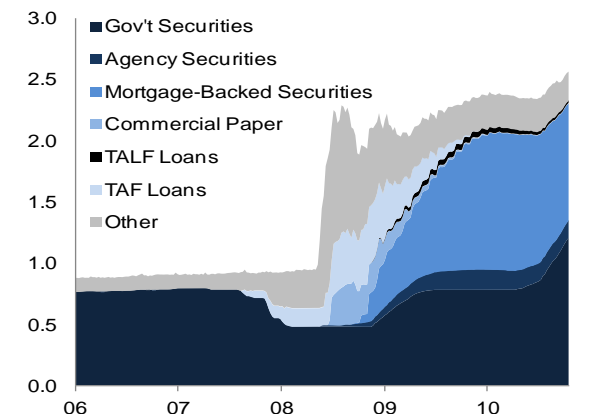
Fed Funds Expectations (Futures Contract End, %)



Source: BBVA Research and Bloomberg

Chart 2

Factors Supplying Reserve Funds (\$tr)



Source: BBVA Research, Federal Reserve and Haver Analytics

Chief Economist for US

Nathaniel Karp

Nathaniel.karp@bbvacompass.com

Ignacio San Martin

Ignacio.SanMartin@bbvacompass.com

Jeffrey Owen Herzog

Jeff.Herzog@bbvacompass.com

Marcial Nava

Marcial.Nava@bbvacompass.com

Hakan Danis

Hakan.Danis@bbvacompass.com

Jason Frederick

Jason.Frederick@bbvacompass.com

Contact details

BBVA Research

5 Riverway Drive

Houston, Texas 77056

ResearchUSA@bbvacompass.com

BBVA Research reports are available in English and Spanish

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