

U.S. Fed Flash

Absence of Keynote Address Puts Academic Research in the Center of 2013 Jackson Hole

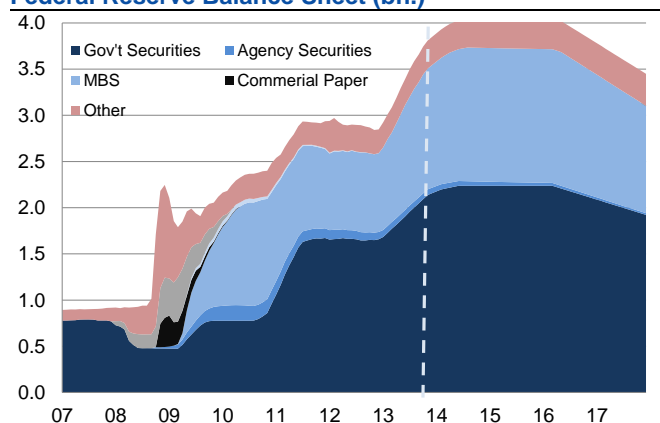
- **2013 Participants deliberate upon Fed's action on tapering**
- **Sideline interviews restated the importance of sustainable economic progress**

The 2013 Jackson Hole meeting is unusual in that Fed Chairman Bernanke is not in attendance, along with European Central Bank president Draghi and Bank of England head Carney. There was no keynote address at the opening of this exclusive annual monetary policy conference. The absence of a policy speech brought a quiet day in the bond market. The 10 Year Treasury Note retreated by 6.7 basis points to 2.82%, after Wednesday's sharp reaction to the release of FOMC somewhat hawkish minutes.

The focus of Jackson Hole this year is the academic paper written by Krishnamurthy and Vissing-Jorgensen (Northwestern University) addressing the effectiveness of QE transmission on interest rates with regard to the types of securities purchased by the Fed. Similar to their previous work, the authors find that the purchasing of Mortgage-Backed Securities (MBS) is more effective at stimulating the economy than is the buying of Treasuries. Furthermore, they advocate a specific path for tapering – reducing the purchases of Treasuries down to zero and then start selling Treasury securities while continuing to purchase MBS. While some previous academic presentations at the Jackson Hole have had impact on current monetary policy, Krishnamurthy and Vissing-Jorgensen's recommended path is unlikely to be followed by the FOMC. As the FOMC minutes ([Fed Watch, August 21](#)) stated, the pace of securities purchases is planned to be reduced in measured steps. Additionally, the FOMC made it clear that there will be no sale of any securities while the zero policy rate is in place. It is worth it to note that in July 2012, Krishnamurthy and Vissing-Jorgensen's work urged the Fed to conduct a MBS-Treasury swap instead of the well-known Operation Twist, but the proposition didn't gain traction at FOMC.

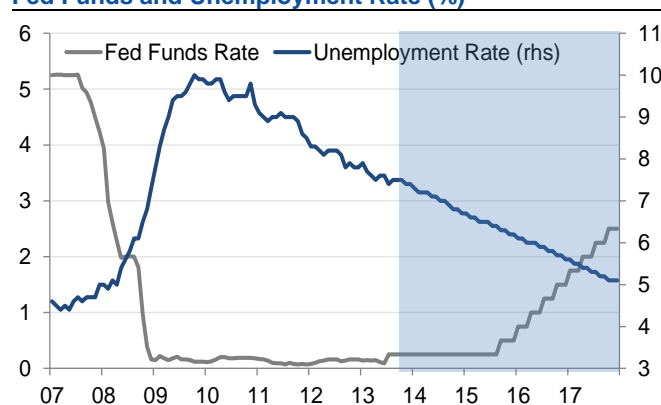
Several Federal Reserve Presidents' interviews on the sidelines of Jackson Hole reassured that the timing of QE3 tapering is dependent upon the release of new data on unemployment, payrolls, and most importantly inflation, as well as on revisions of last month's numbers, including the GDP. While the macroeconomic data will be the center of attention for September tapering, Fed officials are going to look for sustainability of progress rather than dramatic improvements.

Graph 1
Federal Reserve Balance Sheet (bn.)



Source: FRB & BBVA Research

Graph 2
Fed Funds and Unemployment Rate (%)



Source: FRB, BLS & BBVA Research

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