



بنك الإمارات دبي الوطني
Emirates NBD

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Anita Yadav
Head of Fixed Income Research
+971 4 230 7630
anitay@emiratesnbd.com

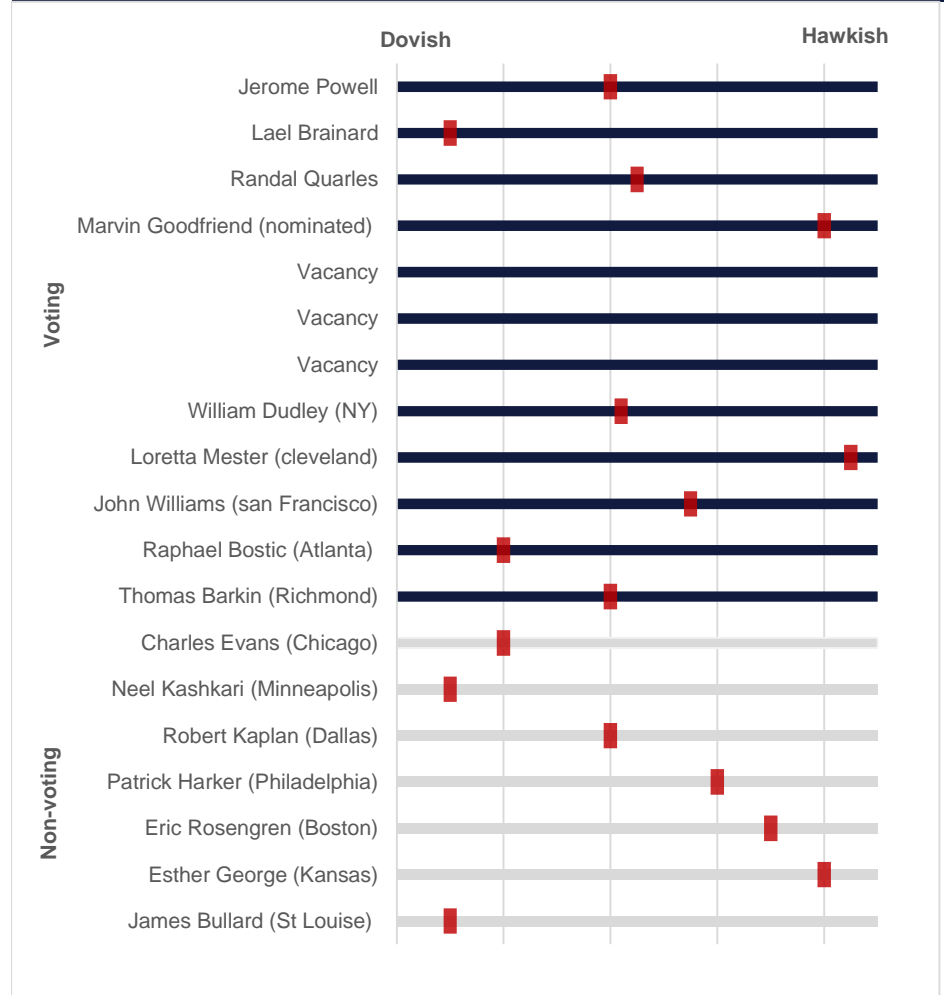
Interest Rate Monitor - FOMC Composition

The Federal Reserve's 2% inflation target, adopted in early 2012, has helped reduce market volatility by anchoring investors' expectations and providing clarity about future monetary policy decisions. However, it has also constrained the Fed in raising rates in the recent past and thereby has limited the potential buffer available to cut rates during future downturns. Fed officials, including current Chair Janet Yellen, have acknowledged that the inflation target may need reconsideration. A change may not be imminent but a debate is clearly underway.

Alongside this issue, **the Monetary Policy and Trade Subcommittee has also been considering proposals to make several other changes to the way the Federal Reserve arrives at its interest rate policy** decisions. One option being considered is to expand the voting members in the Fed's Open Market Committee (FOMC) which sets interest-rate policy, to include the presidents of all 12 regional banks in order to ensure that monetary policy decisions can accurately reflect the level, quality and distribution of economic activity throughout the Federal Reserve System.

The bill, if passed, would mean that presidentially appointed Fed governors would be outvoted by the bank presidents who are selected by directors of their institutions. It would mean that most of the people who have a vote on monetary policy actually are not appointed through the political process and this will likely reduce influence of politics on policy. The final outcome of the bill is still some time away. In the interim the Fed board continues to work on the old system.

2018 FOMC Composition



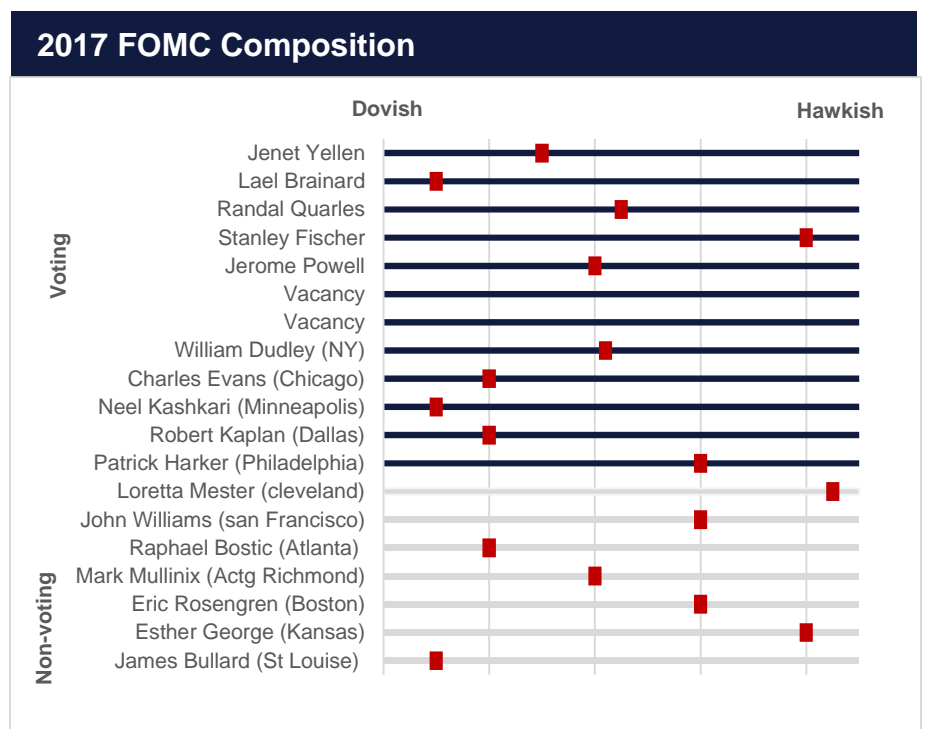
Source: Federal Reserve web site, Bloomberg, Emirates NBD Research

Currently only five of the 12 regional Fed Bank presidents vote on rate decisions along with the seven members of the Federal Reserve’s Board of Governors, including Chairman **Janet Yellen**, who is set to leave office early next month. President Donald Trump has picked Fed Governor Jerome Powell to succeed her. Though Janet Yellen’s term as a Fed board member does not end until 2024, she said in a resignation letter last year that she would leave the board once Powell is sworn in as chair.

Beside recently confirmed Fed governor **Randal Quarles**, continuing governor Ms **Lael Brainard** and incoming Chair **Jerome Powell**, in 2018, Trump will have the opportunity to name four additional Governors to the Fed Board, including a new Vice Chair (**Stan Fischer** resigned from the Fed in mid-October for personal reasons).

Trump has already nominated **Marvin Goodfriend**, an economics professor at Carnegie Mellon University in Pittsburgh, for the Fed board. His confirmation hearing before the Banking Committee has been scheduled for January 23. Marvin Goodfriend is generally perceived to be hawkish because of his preference for a rule-based monetary policy framework.

Personnel turnover is also underway at some of the regional Federal Reserve banks, including New York and Richmond, whose Presidents will be voting members of the FOMC this year. NY Fed President Dudley will depart around the middle of 2018, and Thomas Barkin has just taken over at the Richmond Fed. In 2018, the regional voters (besides the NY and Richmond Fed Presidents) will be Cleveland Fed President Loretta Mester, San Francisco Fed President John Williams, and Atlanta Fed President Raphael Bostic. **On balance, we believe the rotation among the regional bank presidents will contribute to a less dovish voting FOMC contingent in 2018.**



Source: Federal reserve web site, Bloomberg, Emirates NBD Research,

As shown in the charts, in 2017, most voting members of the FOMC were in the dovish camp. However, in 2018, the voting FOMC members are more broadly dispersed between hawks and doves, and that skew could shift further if the new Board appointees lean hawkish. **However, even if the remaining voting member**

vacancies were to be filled with hawks, we believe they would be reluctant to dissent against a dovish-leaning Chair Powell, absent a material trend-change in inflation.

**Anita Yadav
+971 4 230 7630**

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