# Cumberland Advisors
614 Landis Avenue Vineland NJ 08360-8007
1-800-257-7013 http://www.cumber.com

# Today's lunch with Jim Bullard
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In a most forthright and clear Fed statement, St. Louis Fed president James Bullard spoke on Fed exit strategies at a Global Interdependence Center luncheon today at the Philly Fed. One can find the text of his slides and the videotape at www.stlouisfed.org .

Having some conversation with him and listening to his prepared remarks and the post-speech Q & A, I came away with confidence that this member of the FOMC is deep in his studies of monetary policymaking and can communicate some very complex issues in a way that is understandable by an audience not fully skilled in this subject. Readers are urged to take a few minutes and visit the St. Louis Fed website for the text and video.

Jim Bullard was candid. This is refreshing to see. He admits to the areas where the Fed is working out new strategies in this turmoil period. And he also is clear about how the Fed can unwind some of the new tools it put in place and on what timetable it will likely proceed. He was prepared to and did say "I don't know" when it came to issues that are not yet resolved.

More speeches like this by more Fed officials will go a long way to relieve the Fed's opacity. One of the things suggested by many has been the Fed's failure to communicate clearly during the crisis period. Readers of Cumberland's missives know we have been critical of this deficiency at the Fed. We have argued that part of the problem the Fed now has with the country's political body stems from its lack of transparency and its inability to tell this story with clarity.

Today we saw the opposite at the GIC Central Banking Series event. It was a pleasant change from the past "fed speak" and most welcome. Jim Bullard is serving his institution well.

As for the exit strategies he outlined, the world watches closely and waits for execution. With Bullard's discourse the path will be more easily understood. And an easy style of explanation is most helpful. We suggest that the members of the FOMC consider the use of more video tapes of their speeches and to resort to using this more talkative style. It is user friendly. And it is clearer than stiffly read speeches filled with technical jargon.

Journalists need to rethink their ways, too. In settings like this they have to work harder. They are not just handed a text or obtain an embargoed copy. The nuances become important. And reporting them requires alertness. Print media covered this speech closely today. The absence of TV was apparent. To me that means CNBC, Bloomberg, and Fox denied their viewers a complete story. If more Fed speakers adopt this straight talking approach, TV is going to have to rethink its strategies of communicating just as the Fed is doing with its monetary policy strategy.

One technical issue that intrigued this writer is the development of the new Fed policy to pay interest on excess reserves deposited with the Fed. Currently that rate is 25 basis points. The effect is to manage the rate on short term treasury bills. The reason is that banks will buy the t-bill if the market price translates into a rate higher than the rate that the Fed will pay. Those purchases drive down the yield on the t-bill. Banks can perform this arbitrage because both the reserve balance at the Fed and the holding of a t-bill have the same impact on the bank's balance sheet.

This new Fed policy is distinguishable from a similar one used by the European Central Bank (ECB). They pay interest on reserve deposits, too. The difference between the two central banks is that the ECB doesn't buy and hold the debt issues of the sovereign countries that make up its membership. And the ECB is capable of doing direct lending operations with many banks. A recent transaction involved about 1000 banks. Contrast that with the Fed which is conducting policy through 17 firms known as the primary dealers.

Lehman was a primary dealers and a member of this very small "club." So were Merrill Lynch, Bear Stearns and Countrywide. This writer wonders if things would have been different had there been many direct banking access operations with the Fed instead of a small concentrated group. Alas, we will never know and the Fed has not spoken openly about whether or not having a few primary dealers is or was a "good" or "bad" policy.

Few observers in America focus on these differences between the ECB and the Fed but the operational aspect of them may be very significant. It will behoove the Fed to explain the differences as it develops the use of this new interest paying deposit reserve vehicle.

Yupp! Today was a good lunch meeting. Jim Bullard made it so.

David R. Kotok, Chairman and Chief Investment Officer, email: david.kotok@cumber.com

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