

THE FEDERAL RESERVE SYSTEM

Date: July 14, 2017
To: Federal Open Market Committee
From: Steven B. Kamin, Thomas Laubach, Simon Potter, David W. Wilcox
Subject: Background memo on longer-term interest rates

Attached is the first of two background memos on the current low level of longer-term interest rates. This memo, “Recent Movements in Longer-Term Treasury Yields: Causes and Potential Policy Implications,” was prepared by staff members in the Board’s Divisions of International Finance, Monetary Affairs, and Research & Statistics and staff members at FRBNY. The memo examines potential explanations for the observation that since December 2015, when the FOMC first started raising the federal funds rate, the 10-year Treasury yield is almost unchanged, on net. The authors report evidence that the downward surprise to far-forward rates since December 2015 is largely attributable to spillovers from continued monetary policy easing abroad as well as to downward revisions to the expected federal funds rate in the long run (or r^*).

A second memo on low long-term interest rates is being prepared by staff members at the Desk and will be distributed early next week.