Investment Committee Meeting
January 31, 2018
1:30 pm

1. Public comment (if allowed by Chair)

2. Investment Report – As of December 31, 2017

3. Investment Activity: 10/1/2017 – 12/31/2017

		Date	Amount	Yield
Matured	Financing Corporation (FICO)	10/6/2017	$2.042M	.9011%
Matured	Federal Home Loan Bank	12/19/2017	$1M	.8000%

4. Federal Reserve Minutes and PFM Monthly Market Review.

5. Next Investment Committee meeting: April 25, 2018 at 1:30 p.m.

6. Adjourn

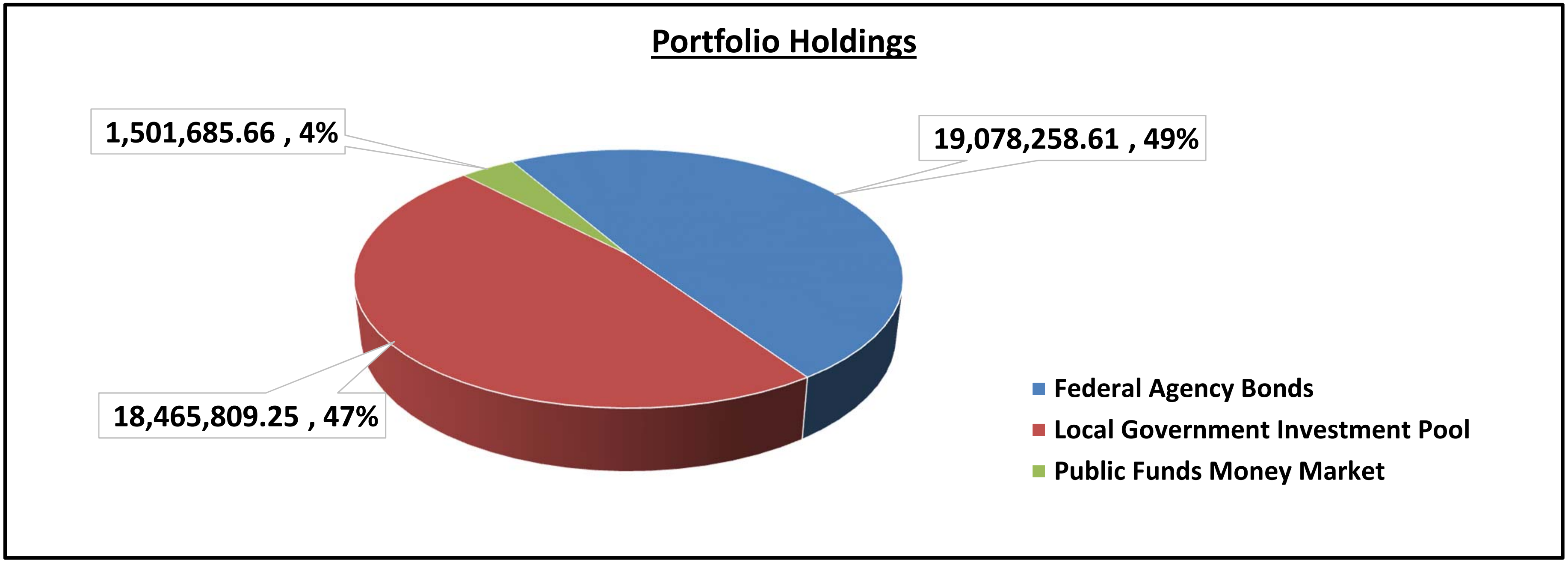
City of Oak Harbor
Investments Detail - Ladder
December 31, 2017

	Bank	Description	Settlement Date	Coupon	PAR Value	Price	Purchase Price	Book Value	Market Value	Maturity Date	Yield to Mat-Purch	Days to Maturity
1	US					#DIV/0!						
1	US					#DIV/0!						
1	US	Federal Home Loan Mortgage Company	08/03/15	0.7500%	1,000,000	99.7818	997,818.00	999,553.17	999,782.00	01/12/18	0.8404%	12
2	US	Federal Home Loan Bank	09/28/15	1.0000%	1,050,000	100.4297	1,054,511.85	1,050,933.49	1,049,483.40	02/28/18	0.8204%	59
3	US	Federal Home Loan Mortgage Company	01/31/17	0.8750%	1,000,000	100.0271	1,000,271.00	1,000,127.03	999,104.00	03/07/18	0.8501%	66
4	US	Federal Home Loan Mortgage Company	04/27/16	0.7500%	2,000,000	99.9414	1,998,828.00	1,999,698.63	1,996,166.00	04/09/18	0.7803%	99
5	US	Federal Home Loan Bank	08/03/17	0.8750%	1,000,000	99.7512	997,512.00	998,626.26	996,220.00	06/29/18	1.1518%	180
6	US	Federal Home Loan Bank	03/10/17	0.6250%	1,000,000	99.3239	993,239.00	995,199.28	993,718.00	08/07/18	1.1101%	219
7	US	Federal National Mortgage Association	06/06/17	1.5500%	1,000,000	100.4780	1,004,780.00	1,003,955.86	998,942.00	08/21/18	1.1501%	233
8	US	Federal Farm Credit Bureau	05/20/16	1.8500%	1,000,000	102.0458	1,020,458.00	1,008,778.16	1,000,143.00	09/19/18	0.9600%	262
9	US	Federal National Mortgage Association	06/30/17	0.8750%	1,000,000	99.5363	995,363.00	996,386.76	992,980.00	10/12/18	1.2401%	285
10	US	Federal Home Loan Bank	08/26/16	1.7000%	1,000,000	102.0122	1,020,122.00	1,008,899.16	998,831.00	11/30/18	0.8000%	334
11	US	Federal National Mortgage Association	04/25/17	1.1250%	1,000,000	99.9750	999,750.00	999,847.20	993,801.00	12/14/18	1.1403%	348
12	US	Federal National Mortgage Association	05/25/17	1.0700%	1,000,000	99.7964	997,964.00	998,714.11	992,584.00	12/26/18	1.1998%	360
13	US	Federal National Mortgage Association	11/18/16	1.3750%	2,000,000	100.7462	2,014,924.00	2,010,201.23	1,990,560.00	01/28/19	1.0300%	393
14	US	Federal Home Loan Bank	08/23/16	1.5000%	1,000,000	101.6308	1,016,308.00	1,009,624.39	995,758.00	03/08/19	0.8500%	432
15	US	Federal Home Loan Bank	11/18/16	0.9500%	1,000,000	99.7415	997,415.00	998,371.18	988,217.00	04/05/19	1.0602%	460
16	US	Federal Home Loan Bank	03/10/17	1.3750%	2,000,000	99.9462	1,998,924.00	1,999,342.70	1,986,482.00	05/24/19	1.3996%	509
		Federal Agency Bonds			**19,050,000**		**19,108,187.85**	**19,078,258.61**	**18,972,771.40**		**1.0304%**	**276**
	SIP	Local Government Investment Pool						18,465,809.25	18,465,809.25		1.2777%	1
		Total Investments						***37,544,067.86***	***37,438,580.65***			
	MIA	Public Funds Money Market						1,501,685.66	1,501,685.66		0.0199%	1
		Total Investments inc. Cash						**39,045,753.52**	**38,940,266.31**		**1.1085%**	**135**
		6-month Treasury Benchmark									**1.5000%**	

* Bond is callable

Matured during the month:

	US	Federal Home Loan Bank	01/09/17	1.0000%	1,000,000	100.1877	1,001,877.00	1,000,000.00		12/19/17	0.8000%	


Portfolio Holdings
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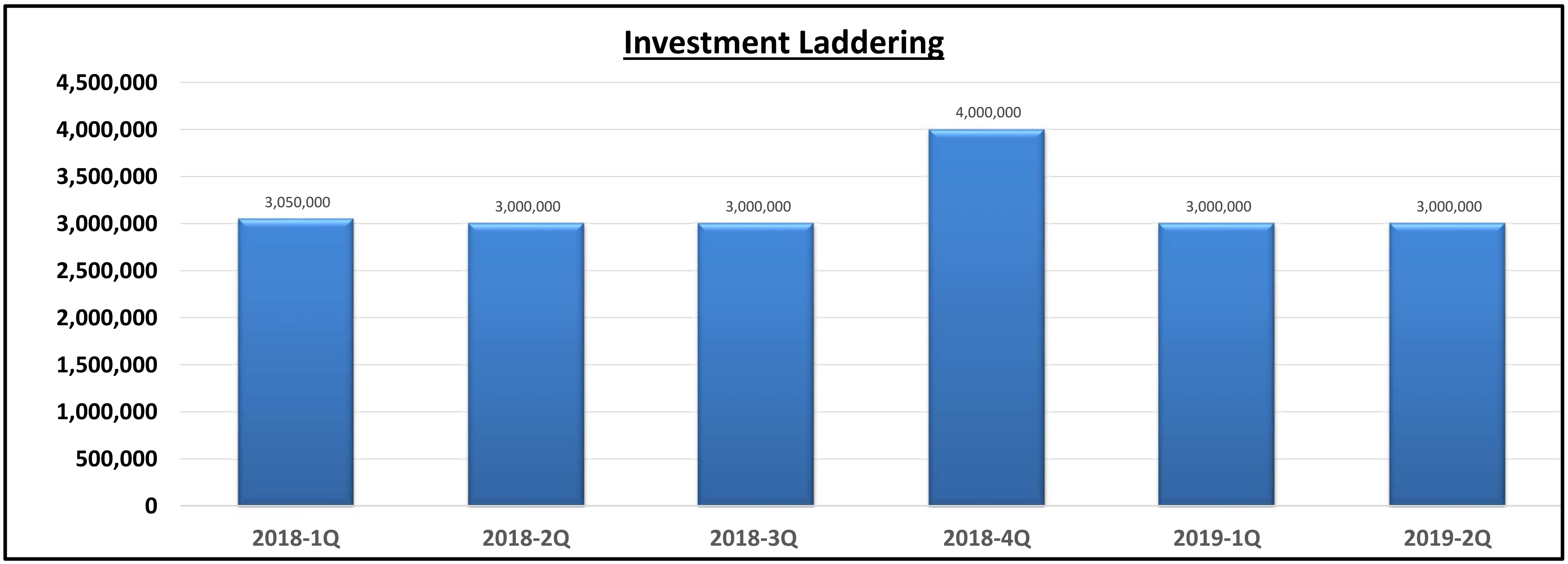
19,078,258.61 , 49%
18,465,809.25 , 47%
Federal Agency Bonds
Local Government Investment Pool
Public Funds Money Market


Investment Laddering
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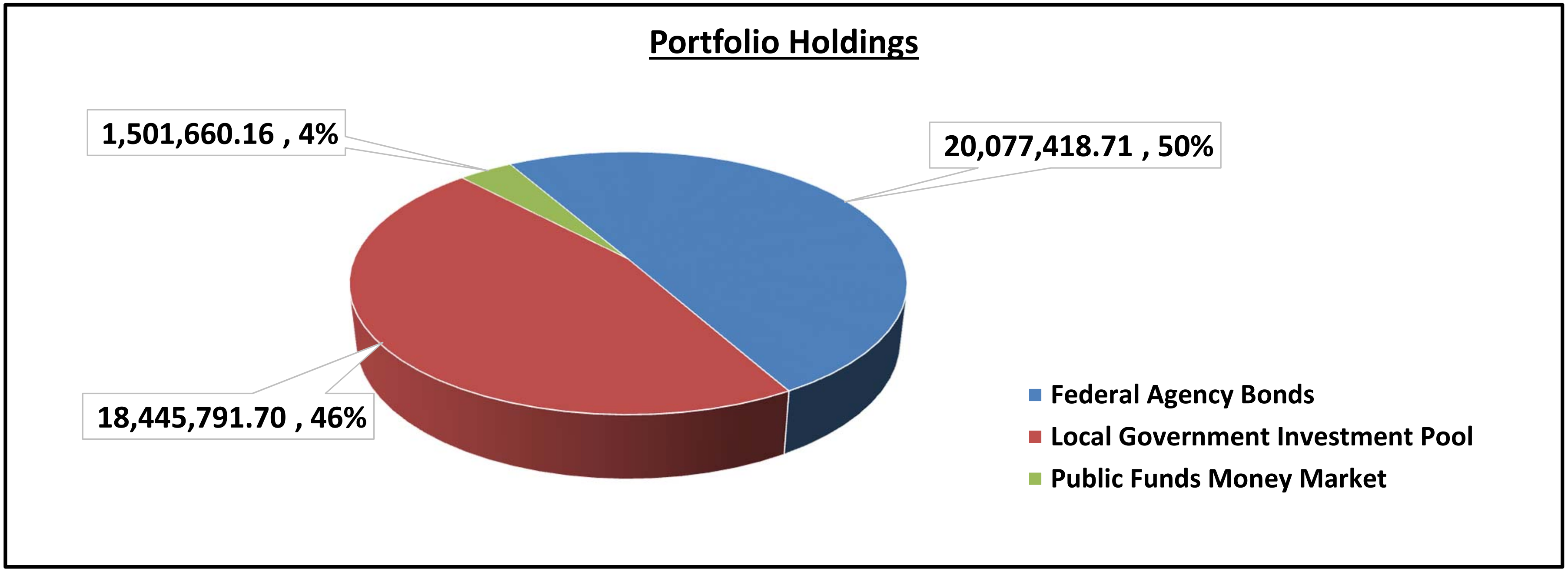
4,000,000
3,000,000
3,000,000
2018-1Q
2018-2Q
2018-3Q
2018-4Q
2019-1Q
2019-2Q

City of Oak Harbor
Investments Detail - Ladder
November 30, 2017

	Bank	Description	Settlement Date	Coupon	PAR Value	Price	Purchase Price	Book Value	Market Value	Maturity Date	Yield to Mat-Purch	Days to Maturity
1	US					#DIV/0!						
1	US	Federal Home Loan Bank	01/09/17	1.0000%	1,000,000	100.1877	1,001,877.00	1,000,993.71	999,925.00	12/19/17	0.8000%	19
2	US	Federal Home Loan Mortgage Company	08/03/15	0.7500%	1,000,000	99.7818	997,818.00	999,553.17	999,340.00	01/12/18	0.8404%	43
3	US	Federal Home Loan Bank	09/28/15	1.0000%	1,050,000	100.4297	1,054,511.85	1,050,933.49	1,048,988.85	02/28/18	0.8204%	90
4	US	Federal Home Loan Mortgage Company	01/31/17	0.8750%	1,000,000	100.0271	1,000,271.00	1,000,127.03	998,737.00	03/07/18	0.8501%	97
5	US	Federal Home Loan Mortgage Company	04/27/16	0.7500%	2,000,000	99.9414	1,998,828.00	1,999,698.63	1,995,396.00	04/09/18	0.7803%	130
6	US	Federal Home Loan Bank	08/03/17	0.8750%	1,000,000	99.7512	997,512.00	997,512.00	996,355.00	06/29/18	1.1518%	211
7	US	Federal Home Loan Bank	03/10/17	0.6250%	1,000,000	99.3239	993,239.00	995,199.28	993,225.00	08/07/18	1.1101%	250
8	US	Federal National Mortgage Association	06/06/17	1.5500%	1,000,000	100.4780	1,004,780.00	1,003,955.86	999,471.00	08/21/18	1.1501%	264
9	US	Federal Farm Credit Bureau	05/20/16	1.8500%	1,000,000	102.0458	1,020,458.00	1,008,778.16	1,002,353.00	09/19/18	0.9600%	293
10	US	Federal National Mortgage Association	06/30/17	0.8750%	1,000,000	99.5363	995,363.00	996,386.76	993,209.00	10/12/18	1.2401%	316
11	US	Federal Home Loan Bank	08/26/16	1.7000%	1,000,000	102.0122	1,020,122.00	1,008,899.16	999,856.00	11/30/18	0.8000%	365
12	US	Federal National Mortgage Association	04/25/17	1.1250%	1,000,000	99.9750	999,750.00	999,770.80	994,156.00	12/14/18	1.1403%	379
13	US	Federal National Mortgage Association	05/25/17	1.0700%	1,000,000	99.7964	997,964.00	998,071.16	993,054.00	12/26/18	1.1998%	391
14	US	Federal National Mortgage Association	11/18/16	1.3750%	2,000,000	100.7462	2,014,924.00	2,010,201.23	1,992,086.00	01/28/19	1.0300%	424
15	US	Federal Home Loan Bank	08/23/16	1.5000%	1,000,000	101.6308	1,016,308.00	1,009,624.39	996,910.00	03/08/19	0.8500%	463
16	US	Federal Home Loan Bank	11/18/16	0.9500%	1,000,000	99.7415	997,415.00	998,371.18	989,594.00	04/05/19	1.0602%	491
17	US	Federal Home Loan Bank	03/10/17	1.3750%	2,000,000	99.9462	1,998,924.00	1,999,342.70	1,989,476.00	05/24/19	1.3996%	540
		Federal Agency Bonds			**20,050,000**		**20,110,064.85**	**20,077,418.71**	**19,982,131.85**		**1.0189%**	**293**
	SIP	Local Government Investment Pool						18,445,791.70			1.1561%	1
		Total Investments						***38,523,210.41***				
	MIA	Public Funds Money Market						1,501,660.16			0.0199%	1
		Total Investments inc. Cash						**40,024,870.57**			**1.0446%**	**147**
		6-month Treasury Benchmark									**1.4100%**	

* Bond is callable

Matured during the month:


Portfolio Holdings
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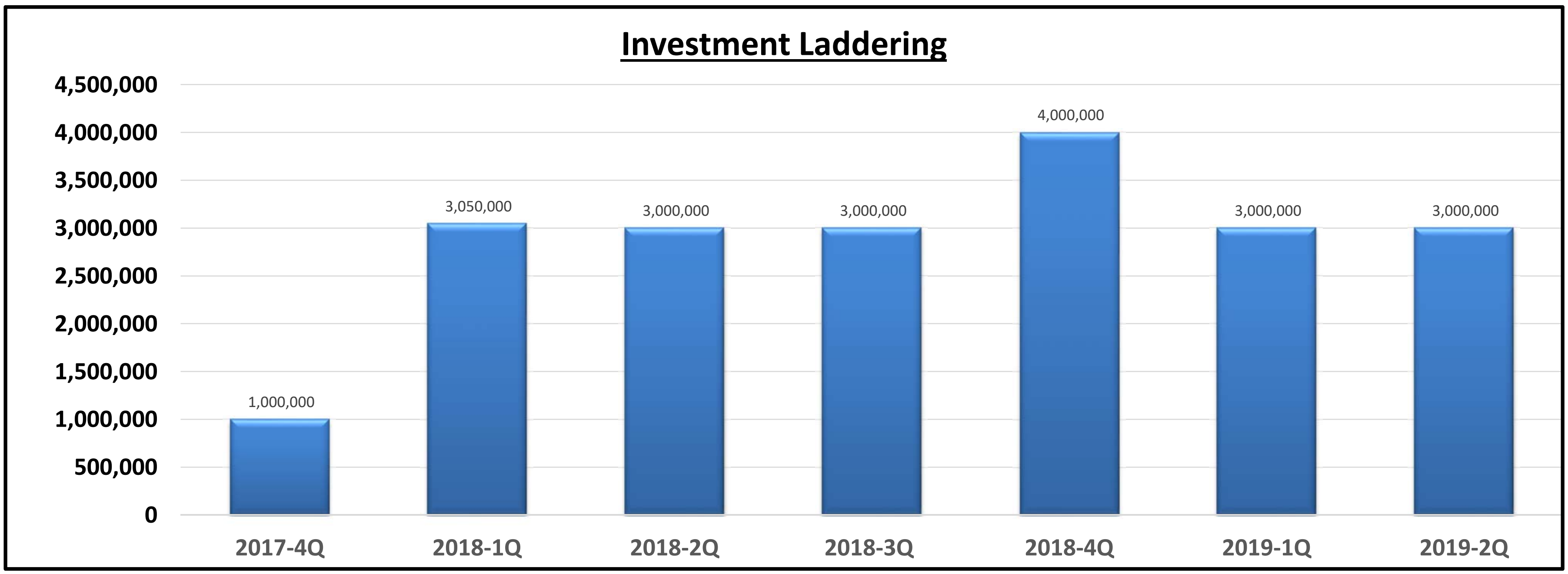
20,077,418.71 , 50%
18,445,791.70 , 46%
Federal Agency Bonds
Local Government Investment Pool
Public Funds Money Market


Investment Laddering
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1,500,000
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3,050,000
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4,000,000
3,000,000
3,000,000
2017-4Q
2018-1Q
2018-2Q
2018-3Q
2018-4Q
2019-1Q
2019-2Q

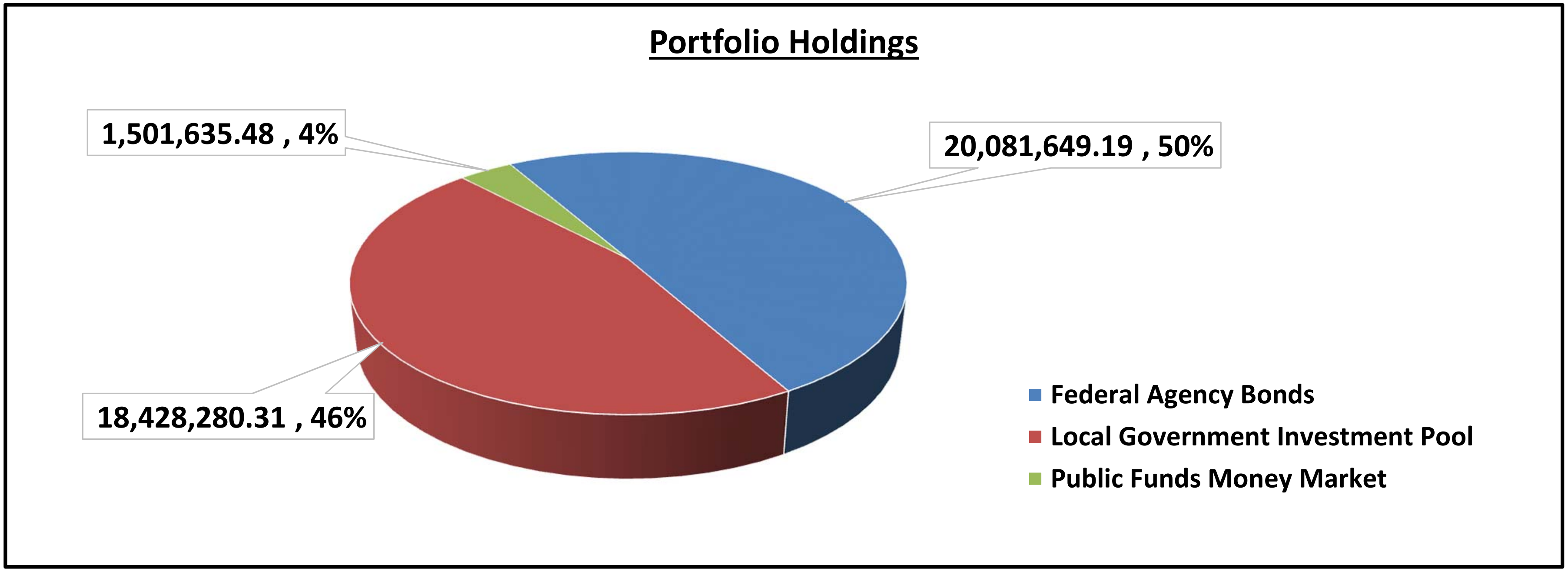
City of Oak Harbor
Investments Detail - Ladder
October 31, 2017

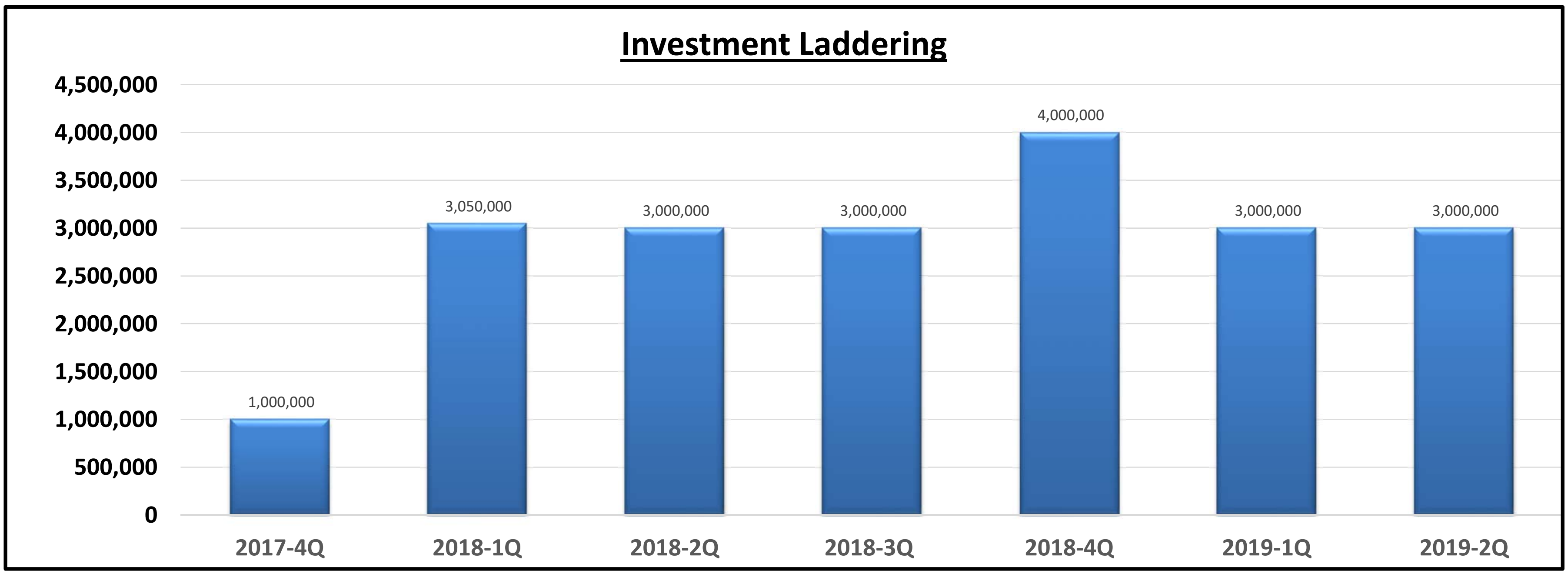
	Bank	Description	Settlement Date	Coupon	PAR Value	Price	Purchase Price	Book Value	Market Value	Maturity Date	Yield to Mat-Purch	Days to Maturity
1	US	Federal Home Loan Bank	01/09/17	1.0000%	1,000,000	100.1877	1,001,877.00	1,000,993.71	999,910.00	12/19/17	0.8000%	49
2	US	Federal Home Loan Mortgage Company	08/03/15	0.7500%	1,000,000	99.7818	997,818.00	999,553.17	999,095.00	01/12/18	0.8404%	73
3	US	Federal Home Loan Bank	09/28/15	1.0000%	1,050,000	100.4297	1,054,511.85	1,050,933.49	1,049,036.10	02/28/18	0.8204%	120
4	US	Federal Home Loan Mortgage Company	01/31/17	0.8750%	1,000,000	100.0271	1,000,271.00	1,000,127.03	998,817.00	03/07/18	0.8501%	127
5	US	Federal Home Loan Mortgage Company	04/27/16	0.7500%	2,000,000	99.9414	1,998,828.00	1,999,698.63	1,995,386.00	04/09/18	0.7803%	160
6	US	Federal Home Loan Bank	08/03/17	0.8750%	1,000,000	99.7512	997,512.00	997,512.00	996,802.00	06/29/18	1.1518%	241
7	US	Federal Home Loan Bank	03/10/17	0.6250%	1,000,000	99.3239	993,239.00	995,199.28	993,995.00	08/07/18	1.1101%	280
8	US	Federal National Mortgage Association	06/06/17	1.5500%	1,000,000	100.4780	1,004,780.00	1,003,955.86	1,001,209.00	08/21/18	1.1501%	294
9	US	Federal Farm Credit Bureau	05/20/16	1.8500%	1,000,000	102.0458	1,020,458.00	1,008,778.16	1,004,222.00	09/19/18	0.9600%	323
10	US	Federal National Mortgage Association	06/30/17	0.8750%	1,000,000	99.5363	995,363.00	996,386.76	995,187.00	10/12/18	1.2401%	346
11	US	Federal Home Loan Bank	08/26/16	1.7000%	1,000,000	102.0122	1,020,122.00	1,013,348.74	1,002,372.00	11/30/18	0.8000%	395
12	US	Federal National Mortgage Association	04/25/17	1.1250%	1,000,000	99.9750	999,750.00	999,770.80	995,844.00	12/14/18	1.1403%	409
13	US	Federal National Mortgage Association	05/25/17	1.0700%	1,000,000	99.7964	997,964.00	998,071.16	994,381.00	12/26/18	1.1998%	421
14	US	Federal National Mortgage Association	11/18/16	1.3750%	2,000,000	100.7462	2,014,924.00	2,010,201.23	1,996,414.00	01/28/19	1.0300%	454
15	US	Federal Home Loan Bank	08/23/16	1.5000%	1,000,000	101.6308	1,016,308.00	1,009,624.39	999,393.00	03/08/19	0.8500%	493
16	US	Federal Home Loan Bank	11/18/16	0.9500%	1,000,000	99.7415	997,415.00	998,371.18	990,425.00	04/05/19	1.0602%	521
17	US	Federal Home Loan Bank	03/10/17	1.3750%	2,000,000	99.9462	1,998,924.00	1,999,123.60	1,993,834.00	05/24/19	1.3996%	570
		Federal Agency Bonds			**20,050,000**		**20,110,064.85**	**20,081,649.19**	**20,006,322.10**		**1.0188%**	**323**
	SIP	Local Government Investment Pool						18,428,280.31			1.1385%	1
		Total Investments						***38,509,929.50***				
	MIA	Public Funds Money Market						1,501,635.48			0.0199%	1
		Total Investments inc. Cash						**40,011,564.98**			**1.0364%**	**162**
		6-month Treasury Benchmark									**1.2600%**	

***** Bond is callable

Matured during the month:

	US	Financing Corporation (FICO)	06/12/15	0.0000%	2,042,000	97.9387	1,999,908.25	2,042,000.00		10/06/17	0.9011%	


Portfolio Holdings
1,501,635.48 , 4%
20,081,649.19 , 50%
18,428,280.31 , 46%
Federal Agency Bonds
Local Government Investment Pool
Public Funds Money Market


Investment Laddering
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4,000,000
3,000,000
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2017-4Q
2018-1Q
2018-2Q
2018-3Q
2018-4Q
2019-1Q
2019-2Q

Forex Academy

Minutes of the Federal Reserve June-December 2017

By
fxwiz
-
January 22, 2018

The minutes of the Federal Reserve are written records that register the details of the Federal Open Market Committee (FOMC) meetings. Comments are recorded in these minutes about the main variables of the US economy by analysts, presidents of federal banks among other agents. The summary of these minutes is published after the meetings held by the federal reserve and is of great importance for economic analysts and investors.

The importance of the minutes is that they provide additional details to those presented in other reports issued by the central bank itself, so they can be used to see how the voting was in the meetings within the committee members, what are the concerns of the members of the economy and how are the economic projections for the current year and the following ones. In the minutes there are figures on the projections and the state of the economy so for investors it is important when the minutes are released to the public.

In the minutes of June, the administrator of the System Open Market Account (SOMA) reported that so far, this year the price of shares had continued its upward trend as at the end of 2016 and market volatility remained low. Some surveys conducted by SOMA to the market showed that expectations in May were for an increase in the federal funds rate in June as well as the normalisation plan in the Federal Reserve balance sheet.

To reduce the balance sheet the committee intended to gradually reduce the holdings values by decreasing its reinvestment of the principal payments received from securities held in the System Open Market Account. With the gradual reduction of holdings in securities, the offer of balances of the reserve will also be reduced which is in line with the discourse of the FED, which has anticipated for some time that it would reduce the balance sheets through time. The committee did not rule out softening the normalisation in the balance sheet if the economy showed worrying signs outside the projections estimated in previous meetings.

The information reviewed in the meeting that took place between December 13 and 14 showed that labour market conditions continued to strengthen and there is evidence to suggest that the real gross domestic product (GDP) accelerated in the second quarter of 2017. Personal consumption expenditures (PCE) decelerated in the month of April. The total inflation and the rate of inflation that excludes the prices of food and energy were below 2%, a reason why concern in the committee was generated because it was not fulfilling its objective number, although the expectations continued pointing to this figure at the end of the year.

Total nonfarm employment expanded further between April and May and the average pace of job gains during the first five months of 2017 was solid. The unemployment rate decreased to 4.3% in May. Total industrial production increased sharply in April reflecting gains in manufacturing, mining and utilities in production processes. One of the sectors that showed negative trends was the production of vehicles at the beginning of the year, but modest gains were achieved in the recent period.

Real PCE grew strongly in April after modest growth in the first quarter. Better gains in jobs, higher real personal disposable income and higher household wealth were determining factors for the real PCE to grow solidly due to improvements in consumer demand. Some surveys conducted by the University of Michigan showed a feeling of optimism in consumers.

Residential investment showed a slowdown in the second quarter due to the fact that in the first quarter, this form of investment showed very solid results. This could have been due to a response to the expectations of increases in the interest rate, which would make it more expensive to borrow from the banks.

Real private expenditures for commercial equipment and intellectual property showed positive figures, although not in the same magnitude as the first quarter of 2017. In general, the surveys showed optimism on the part of investors and businessmen so the operations in oil and gas continued to increase in the second quarter.

The United States' nominal trade deficit widened slightly in March with a small reduction in exports and a small increase in imports. Net exports grew slightly in the first quarter of the year, which contributed to the gross domestic product, but not to a large extent.

With the 12-month period ending in May, the Consumer Price index (CPI) grew a little less than 2% while the core inflation CPI was 1.75%, and in general the surveys made to analysts showed that expectations have not varied with respect to inflation in the long term, so it is expected that the objective of the Federal Reserve will be fulfilled.

In the press releases issued by the FOMC between inter-session periods, analysts have been in line with their expectations because the elimination of the accommodative policy has been emphasised gradually. Market participants interpreted the FOMC statements as indicating that the economic projections had not changed at all in 2017. In the US, projections prepared by the FOMC members it was observed that the projections of the real gross domestic product remained stable due to a solid path of the economy in the first half of the year, especially during the second quarter thanks especially to the increase in the aggregate spending of the economy.

Due to the strengthening of the labour market in the first half of 2017, the FOMC expected the unemployment rate to continue to decrease slightly in the rest of the year and until 2019, showing figures below the long-term rate.

There was also a change in the inflation projections (PCE), which revised the figures downwards due to the fact that during the first half of the year the price behaviour was weaker than expected, but they expected transitory shocks that were affecting prices and in the following years the objective of the Federal Reserve of 2% will be achieved. Many analysts agreed that the softening of inflation was due to decreases in the prices of mobile telephony and prescription drugs, but there is no long-term determinant that has managed to change the expectations of agents in the market.

After evaluating economic conditions, the labour market and inflation, all FOMC members decided to raise the target rate of federal funds to 1.25%. It was noted by the committee that the monetary policy continues to be accommodative to encourage economic activity in the remainder of the year, so the balance sheet of the bank still did not show major changes. Those who voted to make an increase in the interest rate of the reserve were Janet L. Yellen, William C. Dudley, Lael Brainard, Charles L. Evans, Stanley Fischer, Patrick Harker, Robert S. Kaplan, and Jerome H. Powell.

The only president who voted against was Neel Kashkari who is the president of the Minneapolis Federal Reserve Bank. Mr Kashkari preferred to leave the interest rate unchanged due to doubts he had about meeting the 2% inflation target and to wait for additional evidence to show that the effects on inflation were transitory in order to raise rates.

In the September meeting of the Federal Reserve, there were reports which showed the continuation of the positive trend of the labour market of the United States. The growth of the gross domestic product was moderate, but it was still following the positive trend that it had during the whole of 2017, despite natural disasters such as hurricanes Harvey and Irma. Although for this meeting there was no total evidence of the effects of the hurricanes on the economy, there were indications that showed negative effects on production and positive effects on inflation, but it was estimated that these effects would be short-term without affecting the path to the economy in the following years.

Annual CPE inflation continued its trend below 2% in July and showed lower figures than at the beginning of the year. Despite this, market surveys still expected that in the following years, inflation would be close to meeting the goal of the Federal Reserve.

Total nonfarm payroll employment grew solidly between July and August with good wage increases and the unemployment rate remained low at 4.4% at the end of August. Unemployment claims increased from historic lows due to the consequences left by hurricanes in multiple communities in the United States. Total industrial production increased for the sixth consecutive month in July, but in August there was a strong change in trend, showing the temporary effects of hurricanes, especially in drilling and oil and gas extraction activities and manufacturing companies located on the coast.

In the automotive industry, there were still many inventories but there were indications that production had picked up in recent months. On the other hand, despite that another effect of the hurricanes was the reduction in consumer spending, in the reports presented in September it was observed that the consumption of people continued to drive the real growth of the PCE, which is why the shocks of natural disasters did not alter the positive trend of the PCE.

It was also evident that the investment in real estate decreased in the third quarter, showing the continuation of the negative trend of the second quarter as well as the construction of new housing. New and used home sales showed negative figures during the third quarter. On the other hand, private spending for business and intellectual property increased strongly during the third quarter of 2017.

In terms of inflation, the PCE measured annually grew close to 1.5% with the 12-month period ending in July, but these figures accelerated in August closing close to 2%. The retail prices of gasoline increased drastically due to the ravages left by Hurricane Harvey on drilling platforms, which was one of the main components that drove inflation measurements. Market analysts interpreted the FOMC releases between meeting periods as indicative of a slower path in increases in the interest rate of federal funds than was expected due to weak inflation behaviour.

In the report issued by the FOMC, it was stated that during the third quarter of 2017 a decrease in the growth of real gross domestic product was expected due to the multiple hurricanes that hit the United States, but expecting a strong rebound of production during the fourth quarter due to the return to production of sectors and districts that were affected by natural disasters.

The committee projected some changes in core inflation and in PCE due to the effects that hurricanes generated in fuel prices, although in the long term no changes were made to price projections.

In summary, the members of the meeting observed a labour market that continued to strengthen, a real GDP that grew at moderate rates due to natural disasters and a low unemployment rate. The presidents of the federal banks indicated that in each of their districts the economic activity was expanding to moderate figures before the arrival of the hurricanes. Although industrial production fell in the areas affected by the storms, some Presidents of other regions reported solid gains in manufacturing during the month of August and July. The analysts in the committee of the districts affected by the hurricanes reported that their projections on the affectations would be of short-term waiting for a positive fourth quarter. This was due to good levels of expected consumption expenditure in addition to investment in businesses, which would compensate for the industrial decrease generated by the storms.

World economic conditions were improving in 2017 in addition to the depreciation in the third quarter of the dollar, so in the fourth quarter it was expected to contribute to domestic production. The majority of participants in the meeting did not take into account, within their projections, the possible tax cuts that President Donald Trump was trying to implement, or their possible impact on the US economy.

Many of the participants in the meeting expressed concern about the readings of low inflation, so they began to doubt whether the effects that kept inflation low were transitory or if on the contrary, they could persist in time which would affect the long-term projections, and the monetary policy stipulated at the beginning of the year.

After evaluating economic conditions, the labour market and inflation in September, the committee decided to keep the interest rate unchanged at 1.25%. The state of the monetary policy was left in an accommodative state, waiting for a greater strengthening of the variables, especially inflation, which was the variable that most worried about its behaviour. It was also established that the normalisation program of the Federal Reserve balance sheet would begin in October.

Those who voted in favour of the two decisions were Janet L. Yellen, William C. Dudley, Lael Brainard, Charles L. Evans, Stanley Fischer, Patrick Harker, Robert S. Kaplan, Neel Kashkari, and Jerome H. Powell.

In the last meeting of December of the Federal Reserve, it was observed in the reports compiled by the different committees that the prices of the shares continued to increase their value, thanks in part in the fourth quarter to the tax reform passed in the Congress. On the other hand, the labour market continued to strengthen due to higher jobs created and an improvement in the wages of workers due to the narrow labour market.

As for real gross domestic product, a positive trend was also observed in the second half of 2017. Personal Consumer Expenditures (PCE) measured annually fell below 2% in October and was lower than in 2016. Total Nonfarm payroll employment increased in October and November showing a rebound in payrolls from the months of July and September where there were several hurricanes that affected economic activity.

The national unemployment rate went down to 4.1% in October and November and remained at that level showing the positive behaviour of the labour market, and in general for all ethnic groups and classes of people, unemployment rates similar to those observed before the 2008 crisis.

Total industrial production rose sharply in October, partially boosted by the return to operation of multiple industries in the districts affected by the storms, which is a sample of the successful analysis of the Federal Reserve that indicated that the hurricanes would only have consequences in the temporary economy. The real PCE modestly increased in October after rebounding strongly in September. As in the previous reports, consumption expenditure encouraged by better earnings in salaries, real personal disposable income and net household wealth, helped the real PCE to increase as in the second and third quarters. The consumer sentiment measured in various surveys showed the optimism that persisted in the market.

A variable that began to strongly rebound was real residential investment in the fourth quarter after having performed poorly in the previous two quarters. A similar behaviour occurred in the construction of residential housing and the sale of new and used homes. Real private spending on business equipment and intellectual property continued to increase during the fourth quarter.

The economic projections made by the FOMC committee showed results similar to those presented in the previous reports. It was observed that the real GDP had grown solidly in the first semester of 2017 and in the second semester similar figures were expected. Although the hurricane affected economic activity, employment and inflation, in the months after the second quarter it was observed that there were no drastic changes in the projections of these variables.

The committee expected that the positive trend in consumer spending would continue thanks to the strengthening of the labour market, improvements in household wealth and a feeling of optimism among consumers. Even they also expected that the cuts in taxes on people would further incentivise consumer spending, but also other analysts agreed that the effect of the tax reform was discounted a few months ago, so the consumption had grown thinking that the reform would be tested without complications.

They also commented on the possible effect that the tax reform would have on capital spending since there was no clarity about the true impulse to the accumulation of capital by companies with this tariff reduction. This is due to the fact that in several surveys several companies said they were cautious in the purchase of new capital because the possible saving in the cash of the companies would go to purchase new companies or mergers with the existing ones, payment of debt or repurchase of Actions.

Also in some districts in the surveys, the businessmen showed concern about the narrowing of the labour market because it has not been easy to find qualified workers, which made it difficult to respond to the demands of the consumers or to expand the operation of their businesses. The PCE in October was 1.6% so analysts continued to worry about being below the goal of the Federal Reserve, but some analysts also observed that core inflation was stabilising over time and showing some positive trends in the fourth quarter of 2017. Although problems such as technological innovation or globalisation continue to arise, they could drag down the price index as there is more competition in business.

Some participants in the meeting were not in favour of raising the interest rate target due to the weak performance of the economy which, according to them, could change market expectations even in the long term, so they preferred to wait to see the total inflation of the market.

After evaluating the economic conditions until November, labour market and inflation, the majority of committee members voted in favour of raising the interest rate to 1.5% noting that monetary policy remained accommodative to continue supporting the behaviour of the labour market and economic growth. Those who voted in favour of this action were: Janet L. Yellen, William C. Dudley, Lael Brainard, Patrick Harker, Robert S. Kaplan, Jerome H. Powell, and Randal K. Quarles.

The two votes against were Charles L. Evans, president of the Chicago bank and Neel Kashkari, president of the Federal Bank of Minneapolis. Both wanted to keep rates at the 1.25% level at the December meeting as inflation remained below the 2% target, as it did for most of 2017, and according to them not for temporary issues. According to Mr Kashkari, the labour market was still strong creating new jobs, but the growth of real wages did not have such a positive behaviour, so this ended up affecting the inflation figure. He was also concerned about the flattening of the yield curve which indicated that the long-term expectations of inflation were falling in the market consensus. For Kashkari, it was better to wait for inflation to reach the target figure or even go above 2% in order to raise the target of the interest rate.

In conclusion, the minutes are able to find much deeper comments not only from the members of the FOMC committee but also from other bank entities and comments on surveys conducted in the market. 2017 showed, in general, a strong labour market in terms of job creation and wages, although wages did not show the same strength as the rate of job creation. The economy performed well despite major natural disasters such as Hurricane Harvey, and these natural disasters helped inflation to accelerate mainly due to higher fuel prices which helped inflation to be close to the target figure. Throughout the year there were three rate increases added to normalisation in the balance sheet of the bank, but there were some votes against in the meetings of the reserve because inflation did not show the expected signals at the beginning of 2017.

DISCOUNT AND ADVANCE RATES -- Requests by four Reserve Banks to maintain the existing primary credit rate and requests by eight Reserve Banks to increase the rate; requests to renew the secondary and seasonal credit formulas.

Existing rate and formulas approved.
December 4, 2017.

Today, Board members discussed economic and financial developments and issues related to possible policy actions. In connection with this discussion, Board members considered discounts and advances under the primary credit program (the primary credit rate) and discussed, on a preliminary basis, their individual assessments of the appropriate rate and its communication, which would be discussed at the joint meeting of the Board and the Federal Open Market Committee (FOMC) next week.

Subject to review and determination by the Board of Governors, the directors of the Federal Reserve Bank of Dallas had voted on November 22, 2017, and the directors of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis had voted on November 30, to establish the primary credit rate at the existing level (1-3/4 percent). The directors of the Federal Reserve Banks of Cleveland and San Francisco had voted on November 22, and the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, and Kansas City had voted on November 30, to establish a rate of 2 percent (an increase from 1-3/4 percent).

Federal Reserve Bank directors noted continued economic growth and positive conditions in various sectors, including manufacturing and energy. In some Districts, directors reported strong consumer spending heading into the holiday season. Overall, directors noted ongoing strength in labor markets, although directors had mixed reports concerning the availability of workers to fill certain positions. Wage pressures were generally described as modest. Inflation remained somewhat below the Federal Reserve's 2 percent objective. Many directors also noted uncertainty about the potential economic effects of proposed fiscal policy.

The directors of four Reserve Banks favored establishing the primary credit rate at the current level of 1-3/4 percent. Against the backdrop of continued soft readings on inflation, these directors judged that it would be appropriate to maintain the current level of short-term interest rates and assess whether incoming data support the outlook for continued moderate economic growth, further strengthening in labor markets, and a gradual return of inflation to 2 percent over the medium term. The directors of eight Reserve Banks favored increasing the primary credit rate to 2 percent. These directors judged that an increase in short-term interest rates was warranted in light of solid economic growth, already tight labor markets, and an expected rise in inflation toward 2 percent.

No sentiment was expressed by the Board at today's meeting for changing the primary credit rate at this time, and the Board approved the establishment of the primary credit rate at the existing level of 1-3/4 percent. (NOTE: At the joint Board-FOMC meeting on November 1, 2017, the Board had taken no action on requests by the Cleveland, Richmond, and Kansas City Reserve Banks to increase the primary credit rate.)

The Board's action today on the primary credit rate also included renewal of the existing formulas for calculating the rates applicable to discounts and advances under the secondary and seasonal credit programs. As specified by the formula for the secondary credit rate, this rate would be set 50 basis points above the primary credit rate. As specified by the formula for the seasonal credit rate, this rate would be reset every two weeks as the average of the daily effective federal funds rate and the rate on three-month CDs over the previous 14 days, rounded to the nearest 5 basis points.

Voting for this action: Chair Yellen, Vice Chairman for Supervision Quarles, and Governors Powell and Brainard.

Background: Office of the Secretary memorandum, December 1, 2017.

Implementation: Transmissions from Ms. Misback to the Reserve Banks, December 4, 2017.

MONETARY POLICY IMPLEMENTATION -- Increase in the interest rate on reserve balances and in the primary credit rate; renewal of secondary and seasonal credit formulas.

Approved.
December 13, 2017.

In a joint meeting of the Federal Open Market Committee (FOMC) and the Board today, the FOMC decided to raise the target range for the federal funds rate by 25 basis points, to 1-1/4 to 1-1/2 percent, effective December 14, 2017. To support the Committee's decision to raise the target range for the federal funds rate, the Board approved raising the interest rate paid on required and excess reserve balances from 1-1/4 percent to 1-1/2 percent, effective December 14, 2017.

Subject to review and determination by the Board of Governors, the directors of nine Federal Reserve Banks had voted to establish an increase in the rate for discounts and advances under the primary credit program (the primary credit rate). The directors of the Federal Reserve Banks of Boston and New York had voted on November 30, 2017, and the directors of the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, Kansas City, Dallas, and San Francisco had voted on December 7, to establish a primary credit rate of 2 percent (an increase from 1-3/4 percent). The directors of the Federal Reserve Bank of St. Louis had voted on December 7 to establish the primary credit rate at the existing level of 1-3/4 percent. (NOTE: At its meeting on December 4, 2017, the Board had taken no action on requests by the Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Kansas City, and San Francisco Reserve Banks to increase the primary credit rate.)

At today's meeting, there was consensus for a 25-basis-point increase, and the Board approved an increase in the primary credit rate from 1-3/4 percent to 2 percent, effective December 14, 2017, for the nine Reserve Banks that had voted for such an increase. The Board's action today on the primary credit rate also included renewal of the existing formulas for calculating the rates applicable to discounts and advances under the secondary and seasonal credit programs. As specified by the formula for the secondary credit rate, this rate would be set 50 basis points above the primary credit rate. As specified by the formula for the seasonal credit rate, this rate would continue to be reset every two weeks as the average of the daily effective federal funds rate and the rate on three-month CDs over the previous 14 days, rounded to the nearest 5 basis points.

It was understood that a press release and an accompanying document on monetary policy implementation would be issued to announce the increases in the interest rate on reserve balances and the primary credit rate. In addition, the Secretary was authorized to inform the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, on their establishment of a primary credit rate of 2 percent, of the Board's approval and determination, effective on the later of December 14, 2017, or the date the Reserve Bank informed the Secretary of its request. (NOTE: Subsequently, the Secretary informed the Chicago, St. Louis, and Minneapolis Reserve Banks of the Board's approval of their establishment of a primary credit rate of 2 percent, effective December 14, 2017.)

Voting for these actions: Chair Yellen, Vice Chairman for Supervision Quarles, and Governors Powell and Brainard.

Background: Office of the Secretary memorandum, December 8, 2017.

Implementation: FOMC Statement with attached implementation note, December 13; press release, December 14; transmissions from

Ms. Misback to the Reserve Banks, December 13 and 14; and Federal Register documents (Docket Nos. R-1592 and R-1593, RINs 7100 AE-93 and 7200 AE-04), December 15, 2017.