

BERNANKE SAYS MORTGAGE-BACKED SECURITIES ARE A "VIABLE OPTION"

Federal Reserve Chairman Ben S. Bernanke has recently said that additional purchases of mortgage-backed securities are a "viable option" only if the state of the economy warrants further easing. "The housing sector is a very important sector," Bernanke said today at one of his press conferences in Washington. Bernanke has also said that adding to mortgage-backed holdings is "certainly something we would consider if conditions," are appropriate. "Economic growth strengthened somewhat in the third quarter," the policy-setting FOMC said today, while also saying "significant downside risks" remain to the outlook. As long as unemployment remains high and the inflation outlook remains "subdued", the officials will leave their plans to lengthen the maturity of the Fed's bond portfolio and to keep the target federal funds rate near zero through at least mid-2013 unchanged. Bernanke and his colleagues have averaged that unemployment rates should be around 8.5 percent to 8.7 percent in the final three months of 2012. This average has grown from a prior range of 7.8 percent to 8.2 percent. "The medium-term outlook relative to our June projections has been downgraded" and "remains unsatisfactory," says Bernanke. Additional stimulus "remains on the table," Bernanke added. Bernanke refuses to specify conditions that would trigger further action. People rejoiced as the U.S. stocks rebounded from their two-day slump. The Treasuries had to pare losses after Bernanke's comments. Luckily the Standard & Poor's 500 Index climbed 1.3 percent to 1,234.04 at 3:48 p.m. in New York. Although the Dollar Index did slip 0.2 percent, just trimming an earlier drop of 0.7 percent. Treasury 10- year yields were unchanged at 1.99 percent, after jumping nine basis points earlier. "I'm dissatisfied with the state of the economy," Bernanke said. "Unemployment is far too high," and "I fully sympathize with the notion that the economy is not performing the way we should like." In order to try and reduce interest rates in a strategy dubbed Operation Twist, policy makers voted in September to swap \$400 billion of the short-term debt in the Fed portfolio for the longer-term securities. Policy makers have said they would reinvest proceeds from maturing housing debt into mortgage-backed securities, switching from Treasuries. With a plurality of 36 percent respondents seeing purchases beginning in the first quarter of 2012, sixty-nine percent of economists in a Bloomberg News survey expect the Fed to embark in a third round of bond buying. This is according to an Oct. 26-31 survey of 42 economists. "The MBS purchases and Treasury securities purchases are one set of tools that we have," Bernanke said. "The committee will have to look at the outlook and if it judges we are falling sufficiently short of our objectives," and "we believe monetary stimulus would be beneficial," then the FOMC would take "corrective action."



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