

U.S. FOMC Review

- FOMC policy statement: inconsequential changes
- The press conference: a dovish tilt

Michael Moran

Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

Steady Monetary Policy

As widely expected, the Federal Open Market Committee did not alter policy at today's meeting. The target range for the federal funds rate remained at 0-25 basis points, and the Fed will continue to purchase Treasury and mortgage-backed securities at the recent pace. The sentence on forward guidance remained the same (see the last sentence in the statements on the next page).

The policy statement released by the Federal Open Market Committee today was little changed from the one issued in June. The assessment of the current state of the economy was slightly more upbeat in this instance, as officials recognized that activity had picked up in June after sharp declines in the spring. At the same time, the assessment was far from robust, as officials viewed the economy as improving only "somewhat," and the statement noted that economic activity and employment remained well below their levels at the start of the year (see the comparison on the next page).

Officials also added a sentence indicating that the economic outlook depended significantly on the course of the virus. A reporter asked about the addition at the press briefing, and Chair Powell's response suggested that it added a dovish tilt. Specifically, Mr. Powell indicated that the FOMC was not preparing for the upside case (an effective vaccine and quick economic recovery); rather, the Fed was preparing for the worst case scenario. He reinforced this view later in the briefing when he noted, as he did in June, that officials were not thinking about rate hikes at this time. He noted that the FOMC would not consider tighter policy until officials were "very" confident that the economy was on track and well through dealing with the pandemic.

The Fed did not alter in a fundamental way its current quantitative easing program, but the rationale for QE is perhaps beginning to shift. The program was initiated in March to promote the smooth functioning of the fixed-income markets, but Chair Powell noted in his prepared remarks that the effort also carried the benefit of providing accommodation. A reporter also asked about the rationale for QE, and Mr. Powell again suggested that the benefits of reinforcing an accommodative stance were welcome. With financial markets now functioning smoothly, we suspect that officials will focus more on QE as a source of stimulus, and the effort will probably be maintained for some time.

Other interesting points from the press briefing:

The liquidity facilities established during the pandemic are not being used actively, but Chair Powell believed they should be maintained as a backstop.

The Fed chair was fully supportive of additional fiscal stimulus.

When asked about the risk of a double-dip because of the acceleration in the number of Covid cases, Mr. Powell noted that the pace of recovery had slowed, but it was too soon to draw conclusions. We found it interesting that he spoke of a slower recovery rather than a new downturn.

The Fed is making progress in its review of the strategic framework, but officials are not prepared to offer information at this time.

FOMC Statement Comparison*

July 29, 2020 FOMC Statement (In Part)

The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. **Following sharp declines, economic activity and employment have picked up somewhat in recent months but remain well below their levels at the beginning of the year.** Weaker demand and significantly lower oil prices are holding down consumer price inflation. Overall financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

June 10, 2020 FOMC Statement (In Part)

The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. **The virus and the measures taken to protect public health have induced sharp declines in economic activity and a surge in job losses.** Weaker demand and significantly lower oil prices are holding down consumer price inflation. Financial conditions have improved, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

* *Emphasis added*

Source: Federal Open Market Committee; Daiwa Capital Markets America