Daiwa Capital Markets

U.S. FOMC Review

- FOMC Minutes: no meaningful information on strategy

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FOMC: Limited Information

Fed officials did not alter policy at its July 28-29 meeting, and Chair Powell implied at his press conference that near-term actions were not under consideration. Thus, we were not looking for insights into when or what factors might induce a policy change. However, Chair Powell noted that policymakers continued their discussion of the FOMC's strategic framework, and we were hoping for information on how the Committee might alter its policy processes. In the event, the minutes revealed little.

The summary of the strategic review was only one paragraph long, and that paragraph merely noted that officials hoped to finalize the FOMC's statement on long-run goals and strategy in the "near future". We were hoping for information on the new strategy for targeting inflation, which will probably involve striving to hit an average inflation rate over some long period. Such a policy would allow overshoots of inflation after periods of below-target inflation. The minutes provided no information on this issue.

During the policy discussion, officials considered the possibility of providing more explicit forward guidance, either in the form of outcome-based guidance (policy changes triggered by some threshold for inflation or unemployment) or calendar-based guidance (holding to a particular stance for some minimum length of time). However, no decisions were made and no clues offered on likely decisions in the future.

Fed officials also discussed the possibility of providing additional accommodation (if needed) through yield caps and targets (what market participants refer to as "yield curve control"). As was the case at the prior FOMC meeting, this tool was not well received. It was seen as providing only modest benefit, and potential costs could be high (excessive balance sheet growth and difficulty in terminating such programs). Officials concluded that yield targets were not warranted in the current environment.

We found one interesting bit of information in the staff presentations. In reviewing its assessment of the stability of the financial system, the staff concluded that financial vulnerabilities were "notable". In one sense, such an assessment is not shocking, as it is consistent with the latest semi-annual Fed report on financial stability. This report, which was released in May, noted vulnerabilities because of elevated asset valuations and high leverage ratios among businesses with low credit ratings. However, the stability review was conducted in the aftermath of market dysfunction in March, and one might expect a better review in the calmer environment now in place. However, the staff has concerns.