Daiwa Capital Markets

U.S. FOMC Review

- FOMC: no meaningful surprises

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Monetary Policy

Comments by Chair Jerome Powell and other Fed officials in recent weeks had prepared market participants for the shift of 50 basis points adopted by the Federal Open Market Committee today. Like the interest rate change, the statement released by the FOMC carried no meaningful surprises. The first sentence, which previously indicated strength in the economy, was adjusted to recognize the decline in GDP in the first quarter. However, the tone remained upbeat by highlighting continued growth in consumer spending and business investment. The positive tone also was evident in the press briefing, as Chair Powell frequently noted robust demand for labor.

In addition to strength in the labor market, Chair Powell dwelled in his press conference on the challenges of elevated inflation. He noted that supply-side disruptions were playing a role, but he also saw strong demand as a factor behind today's inflation, and he emphasized the Fed's commitment to addressing the demand portion. Reporters asked several times about the Fed's willingness to move beyond neutral policy and to tolerate a recession. Mr. Powell was careful to avoid the R-word, arguing that a path existed to slower inflation without notable increases in unemployment. However, he recognized downside risks and indicated that the FOMC would not hesitate to move beyond neutral if that was necessary to corral inflation.

Mr. Powell provided some insight into Committee action at upcoming meetings. He noted in response to a question at the press briefing that changes of 75 basis points were not under consideration. In his prepared remarks, he indicated that changes of 50 basis points would be on the table "at the next couple of meetings." Thus, market participants should be planning for changes of 50 basis points on June 15 and July 27.

The FOMC released its plan for reducing the Fed's balance sheet. It will make monthly redemptions of $30 billion of Treasury securities and $17.5 billion of mortgage-backed securities from June through August, then move to monthly redemptions of $60 billion of Treasuries and $35 billion of MBS. The Committee provided only limited insight into the endgame, merely noting that the process would slow and then stop shortly before bank reserves are somewhat above a level viewed as ample. There was no hint of what "ample" might mean.