U.S. FOMC Review

- FOMC: only the slightest of dovish tilts

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

Monetary Policy

Many (probably most) market participants were looking for the Fed to signal its intention to slow the pace of monetary tightening. Officials took a step in this direction, but it was a small one. The new policy statement noted that policymakers in coming months will take into account the cumulative effects of policy changes and the lags in policy adjustments. This addition implied that officials were cognizant of risks associated with over-tightening and that policymakers would seek to avoid such a policy mistake. However, the statement did not directly indicate that a slower pace of tightening would be under consideration in December.

The press conference of Chair Powell took even smaller steps than the statement in suggesting a dovish tilt. Mr. Powell noted three dimensions to the Fed's interest campaign: the speed of rate adjustments, the level of rates needed to reduce inflation, and the length of time that policy would need to remain restrictive. He indicated that the speed of adjustment (i.e. changes of 75 basis points vs 50) was less important now that policy has already changed noticeably. The focus should shift to the terminal rate and the duration of a restrictive stance. On these issues, Chair Powell remained decidedly hawkish. Specifically, he indicated that Fed officials will be looking for rates to climb higher than previously expected. That is, the September dot plot, suggesting a terminal rate of 4.625 percent, was not likely to be sufficiently restrictive. In addition, the Fed planned to remain restrictive "for some time".

Mr. Powell emphasized these points in different ways during his briefing. For example, he noted several times that the FOMC "has a ways to go" before it has achieved a sufficiently restrictive stance, and he stated that there are no thoughts at this time of pausing in the rate hike campaign ("very premature"). Although the policy statement recognized the risk of over-tightening, the Fed Chair did not seem concerned, noting that the Fed had the tools to stir the economy if economic weakness became problematic.

One reporter raised the issue of risks, noting that Mr. Powell at other briefings this year indicated that the risk of tightening too little was greater than the risk of tightening too much. When asked if he still felt the same way, Mr. Powell indicated that he would stand by the statement.

In short, actions today in no way resembled a pivot, and they were not much of a tilt either.