Daiwa Capital Markets

U.S. FOMC Review

- FOMC: not finished

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U.S. Monetary Policy

The Federal Open Market Committee kept unchanged what we viewed as the most important sentence in previous policy statements:

> The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time.

The sentence suggests that officials are not finished with the tightening process; rate increases are likely to be “ongoing”. Officials tweaked the next sentence by substituting the word “extent” for “pace”. The statement now reads: “In determining the ***extent*** of future increases in the target rate…” (emphasis added). The change suggests that policymakers are now less concerned about the speed of adjustment and are more focused on the magnitude of change and the duration of a restrictive stance. The combined sentences suggest that while further rate hikes are likely, officials will be content with changes of 25 basis points.

The policy statement and Chair Powell had some favorable things to say about inflation. The policy statement noted that inflation “has eased somewhat”, and Mr. Powell noted in his press conference that the disinflation process has started. However, the central message from the Fed Chair was that the Fed did not see its job as finished. Mr. Powell’s argued that recent easing in inflation was largely the result of sharply lower prices for some goods. Official have seen no meaningful progress in core service inflation ex-housing (the new favored metric of policymakers).

Thus, policy tightening will be ongoing, and a restrictive stance is likely to be maintained for some time. Reporters asked about a pause in the tightening and the possibility of a pivot later this year. Mr. Powell offered little hope for such changes. He noted that now is not the time for a pause, and he indicated that officials do not anticipate a cut in interest rates this year. He noted that the risk of doing too little was greater than the risk of doing too much and that history cautions against easing prematurely.