

Short Note US Fed

FOMC monetary policy decision

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US Fed: No hint of change in policy

As expected, the FOMC did not decide to change monetary policy at the meeting that ended yesterday. The Fed's monetary policy-making body also left the key parts of the communiqué unchanged. However, the new forecasts of the meeting participants reflected an improvement in the outlook, which was probably due to the economic stimulus packages adopted since the last forecasts in December and the growing number of vaccinations. Expectations for GDP growth rose significantly, but only for this year, with little change for 2022 and 2023. The picture is similar for inflation. Although a clear majority continued to expect key interest rates to remain unchanged until at least the end of 2023, the number of those expecting a rate hike before then rose slightly compared to December. Four out of eighteen meeting participants expect at least one rate hike by the end of 2022 (December: 1), and by the end of 2023 the total is seven (December: 5).

In the press conference, Fed Chair Powell reaffirmed the current monetary policy stance without the slightest deviation or hint of a change. He repeated several times the conditions for a rate hike (maximum employment, inflation at 2% and on track to stay above that level). Likely closer to home is the scaling back of monthly securities purchases. Again, there was no change. Substantial further progress towards the Fed's goals remains the prerequisite for change. Powell stressed that the Fed would communicate it well in advance before actually reducing monthly purchases. Actual data will be decisive for the assessment.

The Fed chairman did not comment on the bond market. In response to a question, he only stressed the adherence to the current monetary policy stance. Furthermore, the Fed is monitoring a whole series of indicators to assess financing conditions. Almost all of them continue to show very accommodative values.

We assume that there could be some movement in monetary policy in the summer. A reduction in securities purchases could then be envisaged, which could then be implemented from the beginning of 2022.

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Note: Past performance is not necessarily indicative of future results.

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