U.S. FOMC Review

- FOMC statement: one notable change hints at a pause in easing

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FOMC Statement and Powell Press Conference

The Federal Open Market Committee made only one notable change to its latest policy statement: it did not indicate that officials will "act as appropriate to sustain the expansion." That phrase first appeared in the June statement and served as a signal that the Committee was on the verge of cutting rates (which it did at the following meeting). The absence of this phrase suggests that officials are comfortable with the current policy stance and are not anticipating a near-term reduction in interest rates. The introductory phrase of this key sentence (As the Committee contemplates the future path of the target range for the federal funds rate…) also was dropped, and this change also could be viewed as a hint of steady policy. That is, its absence might imply that the Committee is not "contemplating" a change in the path of policy.

FOMC Statement Comparison

Oct. 30, 2019 FOMC Statement (In Part)	Sept. 18, 2019 FOMC Statement (In Part)
The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate.	As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

Source: Federal Open Market Committee; Daiwa Capital Markets America

Chair Powell indicated more clearly in his press conference that policy is on hold for now. He noted in his prepared remarks that "monetary policy is in a good place" and that the current stance is appropriate if the economy moves in line with the expectations of Fed officials. In the Q&A portion of the briefing, Mr. Powell noted that downside risks to the economy had diminished, and that too argued for steady policy. He highlight three key risks: slow global economic growth, trade tensions, and slow inflation. At one point, he noted that trade tensions were the most significant of the three, and he felt that "phase 1" of the agreement between the U.S. and China provided encouragement.

Many of the questions at the press briefing focused on what might prompt the Fed to alter policy. Mr. Powell did not get specific, merely noting that it would take a material change in the economic outlook. Some reporters asked about the potential for reversing recent rate cuts, and the Fed Chair was a bit more specific in this regard, noting that inflation would be the driving force in this case. He was quick to add, however, that Fed officials do not see a pickup in inflation as an issue at this time.

Mr. Powell mentioned in his prepared remarks the volatility that emerged in the money markets in mid-September, and reporters raised the issue in the Q&A portion. The Fed is still doing diagnostics on the causes, but is seems as though the decline in the volume of reserves in the banking system in the past few years has led to a tight supply-demand situation. The Fed is seeking to push reserves to a level of \$1.45 to \$1.50 trillion to alleviate the situation (low of \$1.39 trillion in mid-September, and \$1.45 trillion currently, with the current total boosted by \$190 billion of short-term RPs). Mr. Powell indicated that he did not see a reduction in liquidity requirements at commercial banks as part of the effort to ease the supply-demand tightness. Recent comments from Treasury Secretary Mnuchin and banking executives raised such a possibility, but Chair Powell did not seem on board.