

# U.S. FOMC Review

- FOMC: what's next?

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## More Rate Cuts? Perhaps a Reversal?

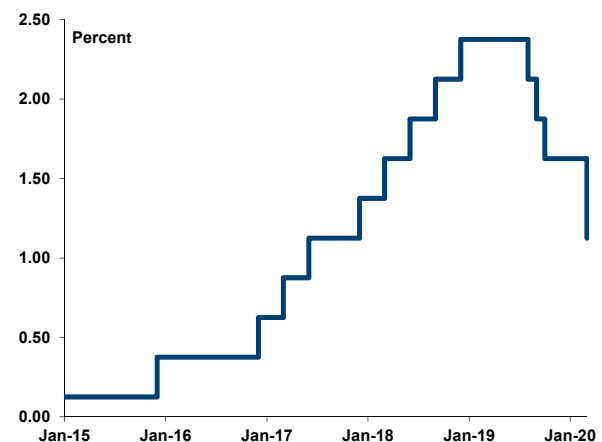
We would like to have a definitive view on the prospects for U.S. monetary policy, but that is difficult in this instance because the driving force in the next few months will be developments with respect to the coronavirus. The Fed's action today, along with Chair Powell's comments in the press briefing, suggested that officials would not hesitate to provide additional support if the virus remains an issue. At the same time, it is conceivable that the virus will die out and the Fed will feel a need to reverse today's 50 basis point cut.

While the outlook is uncertain, developments today offer some guidance. Most important, the intermeeting cut indicates that the Fed is intent on maintaining the expansion and will err on the side of accommodation. Thus, we would lean toward expecting another cut in the months ahead, although we would not be shocked if the Fed took back at least part of today's reduction. The outcome largely depends on the persistence of the virus.

Many market participants are wondering if today's action is a first step in a coordinated effort among central banks. We doubt this is the case. Chair Powell indicated in his press conference that other central banks must take action that makes sense in their own contexts. That is, situations will vary across countries and actions in one might not be suitable in another. The G-7 statement released today also implied that central banks would be acting independently, as the statement noted that central banks would continue to fulfil their mandates. The message was essentially the same as Chair Powell's: one size does not fit all.

While we do not see the Fed's rate cut as part of a coordinated action, we suspect that the Fed gave careful consideration to potential softening abroad and the potential for feedback on the U.S. In addition, other central bankers might have urged Mr. Powell to take action because the Fed has more policy space than they do. The Fed's rate cut might have positive feedback on foreign economies.

### Midpoint of the Federal Funds Target Rate



Sources: Federal Open Market Committee via Haver Analytics