Daiwa Capital Markets

U.S. FOMC Review

- FOMC Minutes: concerned about the coronavirus, but more concerned about financial market dysfunction; an early start to QE

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FOMC: The March 15 Meeting

In one sense, the minutes from the meeting of the Federal Open Market Committee on March 15 were not especially revealing. The spread of the coronavirus had become a bigger issue in the U.S. than it had been in February and early March, and conditions in financial markets had deteriorated. Officials saw a compelling case for bold action, and therefore they adopted a 100 basis point cut in the federal funds rate and a 150 basis point cut in the discount rate. They also restarted QE, and adopted other measures).

While not surprising, the minutes implied that the disruption in financial markets was more of a concern than risks from the coronavirus. The press briefing of Chair Powell after the meeting noted the risks associated with the coronavirus, but he emphasized that the Fed's actions were focused primarily on the dysfunction in financial markets. This same view was evident in the meeting minutes. Staff briefings on the financial situation were longer and more detailed than those on the economic setting. In fact, the staff noted that it did not have much data to assess the influence of the virus. Officials, too, seemed to focus more on financial markets, which "had exhibited extraordinary turbulence and stresses." Although officials did not downplay economic risks, some were concerned that the bold actions of the Fed might be interpreted as "an overly negative signal about the economic outlook."

Although the minutes were not deeply revealing, we found one nugget of information interesting. As conditions in financial markets were slipping, Chair Powell, in consultation with the FOMC, instructed the New York trading desk to purchase Treasury securities across a range of maturities. That is, the Fed began QE even before the meeting on Sunday. The Fed had been buying Treasury securities in the open market, but these purchases merely represented the reinvestment of maturing Treasuries and repayments on mortgage-backed securities. The minutes suggested that Chair Powell had authorized purchases that went beyond reinvestment and would expand the Fed's balance sheet.