U.S. FOMC Review

- FOMC: no new action, but maintaining aggressive policy stance

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

FOMC: No Change

As generally expected, the Federal Open Market Committee did not alter any of its policy parameters at this week's meeting. The Committee did not have many options because it has already moved to an aggressive stance that is providing an unprecedented degree of support to the economy. In fact, the Fed has moved so aggressively that it has not had time to fully implement all of its announced measures. It is still developing some of the credit facilities it has proposed over the past several weeks, and its efforts at this time seem focused on finalizing the operational details of these programs.

Some market participants saw the possibility of an increase in the interest rate on excess reserves in order to nudge the federal funds rate to the mid portion of its 0 to 0.25 percent target range (versus 0.05 percent in the past few weeks). However, IOER was unchanged, apparently signaling that officials do not want to resist low interest rates at this time.

Some analysts had suggested that the Fed might provide more explicit forward guidance at this meeting, perhaps providing more insight into the Fed's plans for quantitative easing or describing conditions that might lead the Fed to begin reversing some of its recent actions. That did not happen, as the policy statement again offered only a vague guideline. Specifically, the FOMC would remain highly accommodative "until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

Reporters pushed further on policy guidance at the virtual press briefing. Chair Powell was market friendly in that he indicated that more support from both Congress and the Fed was likely to be needed, but he offered few specifics, noting only that the Committee felt that policy was properly geared at this time and that officials will need to be "quite confident" about a favorable outlook before they consider a firmer stance. He also noted that officials will be in no hurry to raise interest rates.

Several reporters asked about the Fed's credit facilities, especially the corporate and main street programs. He noted that the corporate programs (purchases of notes and bonds in both the primary and secondary markets) would soon be operational. The main street lending programs (the purchase of a 95% share in a loan to a small or medium-sized business) are more complex and will take time to develop. The Fed received numerous comments on its proposal for main street lending, and it is considering revisions in response to those comments.