

# U.S. FOMC Review

- FOMC Minutes: a few insights

**Michael Moran**

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

## The January FOMC Meeting

The January meeting of the Federal Open Market Committee was generally uneventful, although we found a few elements mildly interesting. If anyone had doubts about the Fed maintaining a highly accommodative stance for an extended period, the minutes should dissuade them from such views. The minutes noted several times that policymakers viewed the economy as far from meeting the Committee's policy goals, and thus officials planned to continue providing support.

The inflation views expressed at the meeting also suggested that policy would remain accommodative. Officials noted that inflation was likely to pickup up in coming months, but the likely changes were not the type that would lead officials to alter policy. Specifically, policymakers noted that year-over-year inflation rates will pickup in the spring when soft readings associated with the pandemic drop out of the 12-month calculation. These will be viewed as transitory shifts related to base effects rather than a genuine acceleration in underlying inflation.

Some officials also noted that supply chain disruptions could push some prices higher, which could boost measured inflation. However, the minutes described such changes as shifts in relative prices rather than a pickup in fundamental inflation. Fed officials would view such changes as one-time shifts and therefore transitory.

While officials intend to remain accommodative, the minutes contained a hint that officials see some risk in maintaining an easy stance for an extended period. The staff presented an update on potential financial instability, concluding that financial vulnerabilities were "notable". The staff could have found stronger language to describe the risks (such as troubling or alarming), but "notable" suggests some concern. The staff briefing highlighted elevated asset prices and heavy debt levels at a time when revenues or incomes might be constrained by the pandemic. Some policymakers also raised the issue of potential financial instability during the Committee discussion.