

U.S. FOMC Review

- FOMC minutes: little insight into prospects for tapering

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June FOMC Minutes

The first fundamental policy change from the Federal Open Market Committee will involve the tapering of the Quantitative Easing program, and Chair Powell indicated in his post-meeting press briefing that the Committee had discussed potential adjustments to the program. We were hoping for insights into the timing of possible changes, but the minutes provided few clues.

The forward guidance on QE provided by the Committee indicates that asset purchases will continue until “substantial further progress” toward the FOMC’s goals is achieved. The minutes noted that this standard had not been met, although “various” policymakers expected conditions to be met sooner than expected. At the same time, the minutes indicated that several officials viewed recent data as providing less-than-clear signals on economic momentum, and thus the Fed should be patient in signaling a change in the program.

Some Fed officials and private-sector observers have suggested that the purchases of mortgage-backed securities could be tapered before Treasuries. Again, the minutes did not allow one to form strong views. The case for early tapering of MBS is based on firm conditions in the housing market and sharp increases in home prices. This argument is strong, but some Fed officials believe that simultaneous tapering is in line with previous communication on the program. In addition, while support for housing activity might not be necessary, some officials saw MBS purchases as providing broad financial accommodation.

Interest rate increases are not on the immediate horizon, and the issue was not actively discussed at the meeting. However, the new dot plot showed that some officials pulled their expectation for rate hikes forward, with the median dot now showing two 25-basis-point changes in 2022 (versus none in the plot from March). While a “few” Fed officials had altered views, “several” emphasized that it was too early to draw conclusions and “some” emphasized that the Committee’s reaction function and its commitment to the new policy framework had not changed. In other words, still a strong dovish tilt.