

EconoFACT

FOMC Policy Announcement — On Hold

Presented by BMO Wealth Management Investment Strategy Team

A publication of BMO Capital Markets Economic Research • Michael Gregory CFA, Deputy Chief Economist, • economics.bmocapitalmarkets.com

The FOMC kept the fed funds target range unchanged for the second consecutive meeting, with the policy statement showing few modifications. As expected, the economic assessment applied a less robust description of household spending... now “*moderate*” versus “*strong*” before. And, interestingly, in the discussion on why the current stance of monetary policy was appropriate, the FOMC said it was because it would lead to inflation “*returning to*” as opposed to remaining “*near*” its symmetric 2% target. When asked about this in the presser, Chair Powell said it was to avoid any misinterpretation that the FOMC was somehow comfortable with a slight undershoot of 2%.

There were technical adjustments to other policy rates; the interest rate on excess reserves (IOER) and the overnight reverse repo rate (ON RPP) were both raised by 5 bps to 1.60% and 1.50%, respectively (with the fed funds target range remaining at 1.50%-to-1.75%). Amid last September’s dislocation in overnight funding markets,

the FOMC sliced both these rates by an extra 5 bps when they eased by a quarter point. Since then, regular repo operations and outright bill purchases have been addressing the underlying issue (scarcity of reserves), as evidenced by relatively calm year-end markets. Indeed, fed funds have recently been trading closer to the bottom of its range, which signalled that a reversal of the 5 bps was appropriate.

With respect to the review of the monetary policy framework, Powell said the midyear reveal is on schedule. On global economic growth, he said some “cautious optimism” might be warranted because the factors that slowed performance last year (e.g., the trade war) may have run their course or already peaked. However, there still remains lots of uncertainty about global trade policy.

Released Date: January 29, 2020 | 15:09

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