US: Key Lending Rates Unchanged And No Decision As To Stance

- Le taux des fonds fédéraux demeure à 1,25 %.
- The bank rate (primary) remains at 2.25%.
- Contrary to its habit, the Federal Reserve is not issuing a change in stance regarding its monetary policy.
- Votes: For = 12; Against = 0

1) The recent difficulties of the US economy, including the falling job market in February, are mainly due to the impact of the rising price of oil and the geopolitical uncertainties.

2) As soon as the uncertainties lift, the current loosening of the monetary policy and the boost in productivity ought to be sufficient to improve the economic climate.

3) The Federal Reserve feels it is not timely to issue a stance regarding the future trend of its monetary policy for as long as uncertainties dominate.

Conclusion: We are not surprised that the Federal Reserve opted today for the status quo in terms of its key lending rates. However, not issuing an indication – as is customary – as to the direction of its future monetary policy was completely unexpected. According to the trend of several recent economic indicators (such as the confidence and job creation indices), it seems more and more obvious that the economic recovery south of our border is being seriously hampered at present. Given this context, most analysts are expecting the FOMC to return to a bias in favour of an eventual drop in the key lending rates. Yet, the presence of growing uncertainties, hours away from the start of a military campaign in Iraq, has led those deciding on monetary policy to refrain from the habitual announcement on stance. The next meeting of the FOMC is scheduled for May 6. Until then, the geopolitical situation normally ought to have improved, allowing a certain “return to normalcy” in terms of the management of monetary policy. However, if the situation were to worsen further, it is not out of the question that the Federal Reserve could decree a cut in the key lending rates before the May meeting, as it occasionally does in-between FOMC meetings.