Essentials of the Monetary Policy

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FEDERAL RESERVE

The end of QE3

ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- The Committee decided to conclude its asset purchase program this month.
- The Committee anticipates, based on its current assessment, that it likely will be appropriate to maintain the 0.00% to 0.25% target range for the federal funds rate for a considerable time following the end of its asset purchase program this month. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.
- Information received since the Federal Open Market Committee met in September suggests that economic activity is expanding at a moderate pace. Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow.
- Inflation has continued to run below the Committee's longer-run objective. Market-based measures of inflation compensation have declined somewhat; survey-based measures of longer-term inflation expectations have remained stable.
- The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced.

COMMENTS

As announced at the last monetary policy committee meeting, the bond purchase program (QE3) will conclude in October. Since it was announced in fall 2012, the program has allowed the Fed to add $US1,625B to its balance sheet. The real effect this measure has had on the economic outlook remains debatable, but the Fed continues to think that the high level of its balance sheet, even after the securities purchasing is over, will help maintain accommodative financial conditions.

The greater uncertainty surrounding the global economy and financial markets, particularly with the stock exchange's problems two weeks ago, could have driven Janet Yellen and her colleagues to adopt a more dovish tone. The statement released today nevertheless shows equilibrium. In terms of the job market, the Fed even sounds encouraged as it is now talking about substantial improvement in the job market. The Fed could have also come out more pessimistic on inflation, but instead opted for nuance, distinguishing between the messages signalled by inflation expectations of markets (downward) and of household and establishment surveys (stable). We therefore sense that the Fed has not seen many factors that could greatly impact the economic scenario released in September. In addition, there was no mention of the increasingly troubling economic outlook abroad.

Implications: By staying the course, the Fed is allowing us to maintain our outlook on the next upward movement in rates. As forecast, there was no meaningful change in the sentence noting that the current federal funds range will likely be appropriate for considerable time after the end of the securities purchase program. It would be more suitable to modify this forward guidance in December when the Fed's new forecasts will be released and Chair Yellen can further explain the Fed's reasoning in a press conference. In the meantime, the central bank's leaders have given themselves some leeway that is reminiscent of the "no preset course" theme previously employed when QE3 was in place. Now there is talk that, depending on the outlook, rates could go up sooner or later than what is currently forecasted. The Fed is therefore continuing to monitor economic indicators. Our own scenarios continue to be compatible with key rates seeing an initial increase in June 2015.

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Schedule 2014 of Central Bank meetings

		Decision	Rate
JANUARY			
9	European Central Bank	s.q.	0.25
9	Bank of England	s.q.	0.50
15	Bank of Brazil	+50 b.p.	10.50
21-22	Bank of Japan	---	---
22	Bank of Canada	s.q.	1.00
29	Reserve Bank of New Zealand	s.q.	2.50
29	Federal Reserve	s.q.	0.25
31	Bank of Mexico	s.q.	3.50
FEBRUARY			
3	Reserve Bank of Australia	s.q.	2.50
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
13	Bank of Sweden	s.q.	0.75
17-18	Bank of Japan	---	---
26	Bank of Brazil	+25 b.p.	10.75
MARCH			
3	Reserve Bank of Australia	s.q.	2.50
5	Bank of Canada	s.q.	1.00
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
10-11	Bank of Japan	---	---
12	Reserve Bank of New Zealand	+25 b.p.	2.75
19	Federal Reserve	s.q.	0.25
20	Swiss National Bank	s.q.	0.00
21	Bank of Mexico	s.q.	3.50
27	Bank of Norway	s.q.	1.50
31	Reserve Bank of Australia	s.q.	2.50
APRIL			
2	Bank of Brazil	+25 b.p.	11.00
3	European Central Bank	s.q.	0.25
7-8	Bank of Japan	---	---
9	Bank of Sweden	s.q.	0.75
10	Bank of England	s.q.	0.50
16	Bank of Canada	s.q.	1.00
23	Reserve Bank of New Zealand	+25 b.p.	3.00
25	Bank of Mexico	s.q.	3.50
30	Bank of Japan	---	---
30	Federal Reserve	s.q.	0.25
MAY			
6	Reserve Bank of Australia	s.q.	2.50
8	European Central Bank	s.q.	0.25
8	Bank of England	s.q.	0.50
8	Bank of Norway	s.q.	1.50
20-21	Bank of Japan	---	---
28	Bank of Brazil	s.q.	11.00
JUNE			
3	Reserve Bank of Australia	s.q.	2.50
4	Bank of Canada	s.q.	1.00
5	European Central Bank	-10 b.p.	0.15
5	Bank of England	s.q.	0.50
6	Bank of Mexico	-50 b.p.	3.00
11	Reserve Bank of New Zealand	+25 b.p.	3.25
12-13	Bank of Japan	---	---
18	Federal Reserve	s.q.	0.25
19	Bank of Norway	s.q.	1.50
19	Swiss National Bank	s.q.	0.00

		Decision	Rate
JULY			
1	Reserve Bank of Australia	s.q.	2.50
3	European Central Bank	s.q.	0.15
3	Bank of Sweden	-50 b.p.	0.25
10	Bank of England	s.q.	0.50
11	Bank of Mexico	s.q.	3.00
14-15	Bank of Japan	---	---
16	Bank of Brazil	s.q.	11.00
16	Bank of Canada	s.q.	1.00
23	Reserve Bank of New Zealand	+25 b.p.	3.50
30	Federal Reserve	s.q.	0.25
AUGUST			
5	Reserve Bank of Australia	s.q.	2.50
7	European Central Bank	s.q.	0.15
7	Bank of England	s.q.	0.50
7-8	Bank of Japan	---	---
SEPTEMBER			
2	Reserve Bank of Australia	s.q.	2.50
3	Bank of Brazil	s.q.	11.00
3	Bank of Canada	s.q.	1.00
3-4	Bank of Japan	---	---
4	European Central Bank	-10 b.p.	0.05
4	Bank of England	s.q.	0.50
4	Bank of Sweden	s.q.	0.25
5	Bank of Mexico	s.q.	3.00
10	Reserve Bank of New Zealand	s.q.	3.50
17	Federal Reserve	s.q.	0.25
18	Bank of Norway	s.q.	1.50
18	Swiss National Bank	s.q.	0.00
OCTOBER			
2	European Central Bank	s.q.	0.05
6	Reserve Bank of Australia	s.q.	2.50
6-7	Bank of Japan	---	---
9	Bank of England	s.q.	0.50
22	Bank of Canada	s.q.	1.00
23	Bank of Norway	s.q.	1.50
28	Bank of Sweden	-25 b.p.	0,00
29	Federal Reserve	s.q.	0.25
29	Reserve Bank of New Zealand		
29	Bank of Brazil		
31	Bank of Japan		
31	Bank of Mexico		
NOVEMBER			
3	Reserve Bank of Australia		
6	European Central Bank		
6	Bank of England		
18-19	Bank of Japan		
DECEMBER			
1	Reserve Bank of Australia		
3	Bank of Brazil		
3	Bank of Canada		
4	European Central Bank		
4	Bank of England		
5	Bank of Mexico		
10	Reserve Bank of New Zealand		
11	Bank of Norway		
11	Swiss National Bank		
16	Bank of Sweden		
17	Federal Reserve		
18-19	Bank of Japan		

Note: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.