

July 27, 2016



FEDERAL RESERVE

Federal Reserve leaders are less worried

ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to maintain the target range for the federal funds rate at 0.25% to 0.50%.
- The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.
- Information received since the Federal Open Market Committee met in June indicates that the labor market strengthened and that economic activity has been expanding at a moderate rate. Household spending has been growing strongly but business fixed investment has been soft.
- Inflation has continued to run below the Committee's 2% longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.
- Near-term risks to the economic outlook have diminished.

COMMENTS

As nearly all analysts surveyed by Bloomberg predicted, the Fed once again held its key rate steady in July. The main interest in today's meeting was to see if the Fed would adopt more optimistic language than in June and go so far as to clearly open the door for monetary firming at its September 20-21 meeting.

Unsurprisingly, the paragraph in the statement concerning the economic environment is fairly positive, as job creation in June bounced back after a few difficult months. Weak business investment is still the primary dark spot in the picture of the U.S. economy. The Fed's analysis of inflation is unchanged and does not signal any urgency in raising key rates.

There was, however, some surprise in the statement: a sentence stating that short-term risks for the economy

had fallen was added, despite the vote for Brexit and other worrisome geopolitical developments. Strong financial market performance in recent weeks certainly contributed to this upswing in confidence. In addition, June's rebound in employment seems to have dissipated a good portion of Fed leaders' doubts on the health of the U.S. economy.

After surprising with its worried tone in June, the Fed seems to have found some optimism again. This was demonstrated by Esther George, Kansas City Fed President, who went back to voting in favour of monetary firming today. Accordingly, the Fed is back to a situation similar to April, as the door seems to start to open for an increase in key rates. Yet Fed leaders have demonstrated in the past that their optimism is fragile, and that it takes very little to convince them to maintain the status quo. We also note that monetary easing expected in Europe and Japan could complicate the Fed's task if it puts upside pressure on the U.S. dollar.

Implications: Today's statement seemed intended to signal that an increase in key rates is not impossible at the September meeting. If financial markets continue to do well and U.S. economic data remains favourable, we will need to start to prepare for this possibility. However, for now we consider it more likely that the Fed will wait several more months before raising its key rates. The meeting in Jackson Hole at the end of August will provide the Fed with an excellent opportunity to better signal its intentions.

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Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia	s.q.	1.75
14	Bank of England	s.q.	0.50	6	Bank of Sweden	s.q.	-0.50
20	Bank of Brazil	s.q.	14.25	13	Bank of Korea	s.q.	1.25
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.05	14	Bank of England	s.q.	0.50
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil	s.q.	14.25
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve	s.q.	0.50
				28	Bank of Japan		
FEBRUARY			AUGUST				
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia		
4	Bank of England	s.q.	0.50	4	Bank of England		
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea		
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand		
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico		
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil		
29	Reserve Bank of Australia	s.q.	2.00				
MARCH			SEPTEMBER				
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia		
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden		
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada		
9	Bank of Canada	s.q.	0.50	8	European Central Bank		
10	European Central Bank	-5 b.p.	0.00	8	Bank of Korea		
14	Bank of Japan	s.q.	-0.10	15	Bank of England		
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank		
17	Bank of England	s.q.	0.50	20	Bank of Japan		
17	Bank of Norway	-25 b.p.	0.50	21	Reserve Bank of New Zealand		
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve		
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway		
				29	Bank of Mexico		
APRIL			OCTOBER				
5	Reserve Bank of Australia	s.q.	2.00	3	Reserve Bank of Australia		
13	Bank of Canada	s.q.	0.50	12	Bank of Korea		
14	Bank of England	s.q.	0.50	13	Bank of England		
18	Bank of Korea	s.q.	1.50	19	Bank of Brazil		
21	European Central Bank	s.q.	0.00	19	Bank of Canada		
21	Bank of Sweden	s.q.	-0.50	20	European Central Bank		
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Norway		
27	Bank of Brazil	s.q.	14.25	27	Bank of Sweden		
27	Bank of Japan	s.q.	-0.10	31	Reserve Bank of Australia		
27	Federal Reserve	s.q.	0.50	31	Bank of Japan		
MAY			NOVEMBER				
3	Reserve Bank of Australia	-25 b.p.	1.75	2	Federal Reserve		
5	Bank of Mexico	s.q.	3.75	3	Bank of England		
12	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
12	Bank of Korea	s.q.	1.50	10	Bank of Korea		
12	Bank of Norway	s.q.	0.50	17	Bank of Mexico		
25	Bank of Canada	s.q.	0.50	30	Bank of Brazil		
JUNE			DECEMBER				
2	European Central Bank	s.q.	0.00	5	Reserve Bank of Australia		
7	Reserve Bank of Australia	s.q.	1.75	7	Bank of Canada		
8	Bank of Korea	-25 b.p.	1.25	8	European Central Bank		
8	Reserve Bank of New Zealand	s.q.	2.25	14	Bank of Korea		
8	Bank of Brazil	s.q.	14.25	14	Federal Reserve		
15	Bank of Japan	s.q.	-0.10	15	Bank of England		
15	Federal Reserve	s.q.	0.50	15	Bank of Norway		
16	Bank of England	s.q.	0.50	15	Bank of Mexico		
16	Swiss National Bank	s.q.	-0.75	15	Swiss National Bank		
23	Bank of Norway	s.q.	0.50	19	Bank of Japan		
30	Bank of Mexico	+50 b.p.	4.25	21	Bank of Sweden		

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.