

# ESSENTIALS OF THE MONETARY POLICY

## Federal Reserve (Fed)

### The Fed does not signal imminent key rate increases

#### ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 0.50% to 0.75%.
- ▶ The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate.
- ▶ Information received since the Federal Open Market Committee met in December indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace. Job gains remained solid and the unemployment rate stayed near its recent low. Household spending has continued to rise moderately while business fixed investment has remained soft. Measures of consumer and business sentiment have improved of late.
- ▶ Inflation increased in recent quarters but is still below the Committee's 2% longer-run objective. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance.

#### COMMENTS

After the key rate increase ordered in December 2016, it was clear that Fed leaders would not opt for another change in monetary policy at their meeting that ended today. Especially since, unlike the meeting in December and the upcoming meeting in March, Fed Chair Janet Yellen was not expected to hold a press conference and Fed leaders did not provide updates to their economic forecasts. One uncertainty remained, however: Would the change in the makeup of the monetary policy committee, triggered by the annual turnover of regional members, make a difference? It appears not, since the statement released today is almost a carbon copy of the December statement and, as in December, the decision was unanimous.

Excluding some changes to verb tenses and other cosmetic changes, the statement contained only one noteworthy difference: The Fed now acknowledges the improvement in consumer and business confidence. Since its observations on the overall economic situation remain the same, we can assume that the Fed is not yet convinced that the real economy will accurately reflect this widespread boost in confidence. In other words, the Fed remains cautious, meaning that Janet Yellen and her colleagues did not wish to clearly signal a rate increase at the March meeting. They too will want to know more about economic developments and the implementation of the Trump administration's economic policies before they signal another key rate increase. In December, the Fed leaders' median forecast had called for three 25-point increases to the key rate in 2017.

#### IMPLICATIONS

While the Fed sees that confidence in the United States has improved, this is not enough to signal a key rate increase in March. It will hold off until it knows more about the economic trend, which it must be said has often been a disappointment at the beginning of recent years in the United States. In addition, upcoming economic performance will depend to a great extent on the policies to be implemented by the Trump administration. At this time, our scenarios still call for only two key rate increases in 2017.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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# Schedule 2017 of Central Bank meetings

Date	Central banks	Decision	Rate
<b>January</b>			
11	Bank of Brazil	-75 b.p.	13.00
12	Bank of Korea	s.q.	1.25
18	Bank of Canada	s.q.	0.50
19	European Central Bank	s.q.	
30	Bank of Japan	s.q.	-0.10
<b>February</b>			
1	Federal Reserve	s.q.	0.75
2	Bank of England		
7	Reserve Bank of Australia		
8	Reserve Bank of New Zealand		
9	Bank of Mexico		
14	Bank of Sweden		
21-22	Bank of Brazil		
22	Bank of Korea		
<b>March</b>			
1	Bank of Canada		
7	Reserve Bank of Australia		
9	European Central Bank		
15	Bank of Japan		
15	Federal Reserve		
16	Bank of England		
16	Bank of Norway		
16	Swiss National Bank		
22	Reserve Bank of New Zealand		
30	Bank of Mexico		
<b>April</b>			
4	Reserve Bank of Australia		
11-12	Bank of Brazil		
12	Bank of Korea		
12	Bank of Canada		
26	Bank of Sweden		
26	Bank of Japan		
27	European Central Bank		
<b>May</b>			
2	Reserve Bank of Australia		
3	Federal Reserve		
4	Bank of Norway		
10	Reserve Bank of New Zealand		
11	Bank of England		
18	Bank of Mexico		
24	Bank of Korea		
24	Bank of Canada		
30-31	Bank of Brazil		
<b>June</b>			
6	Reserve Bank of Australia		
8	European Central Bank		
14	Federal Reserve		
15	Bank of England		
15	Bank of Japan		
15	Swiss National Bank		
21	Reserve Bank of New Zealand		
22	Bank of Norway		
22	Bank of Mexico		

Date	Central banks	Decision	Rate
<b>July</b>			
3	Bank of Sweden		
4	Reserve Bank of Australia		
12	Bank of Korea		
12	Bank of Canada		
19	Bank of Japan		
20	European Central Bank		
25-26	Bank of Brazil		
26	Federal Reserve		
<b>August</b>			
1	Reserve Bank of Australia		
3	Bank of England		
9	Reserve Bank of New Zealand		
10	Bank of Mexico		
30	Bank of Korea		
<b>September</b>			
5	Reserve Bank of Australia		
5-6	Bank of Brazil		
6	Bank of Canada		
7	European Central Bank		
14	Bank of England		
14	Swiss National Bank		
20	Bank of Japan		
20	Federal Reserve		
21	Bank of Norway		
27	Reserve Bank of New Zealand		
28	Bank of Mexico		
*	Bank of Sweden		
<b>October</b>			
3	Reserve Bank of Australia		
18	Bank of Korea		
24-25	Bank of Brazil		
25	Bank of Canada		
26	European Central Bank		
26	Bank of Norway		
30	Bank of Japan		
*	Bank of Sweden		
<b>November</b>			
1	Federal Reserve		
2	Bank of England		
7	Reserve Bank of Australia		
8	Reserve Bank of New Zealand		
9	Bank of Mexico		
29	Bank of Korea		
<b>December</b>			
5	Reserve Bank of Australia		
5-6	Bank of Brazil		
6	Bank of Canada		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
20	Bank of Japan		
*	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. \* To be determined.