

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

No Clear Signal About Further Firming in June

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 0.75% to 1.00%.
- ▶ The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate.
- ▶ Information received since the Federal Open Market Committee met in March indicates that the labor market has continued to strengthen even as growth in economic activity slowed. Job gains were solid, on average, in recent months, and the unemployment rate declined. Household spending rose only modestly, but the fundamentals underpinning the continued growth of consumption remained solid. Business fixed investment firmed.
- ▶ Inflation measured on a 12-month basis recently has been running close to the Committee's 2% longer-run objective. Excluding energy and food, consumer prices declined in March and inflation continued to run somewhat below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

COMMENTS

We might have guessed that the Fed meeting, which ended today would be uneventful. For some time now, the Fed's most important announcements have been made at quarterly meetings, when leaders release their new forecasts and when Fed Chair Janet Yellen meets with the media. In addition, after the key rate increase ordered in March, nothing pointed to the urgency to make another move seven weeks later, au contraire.

Instead, the economy has posted disappointing results since mid-March. The 98,000 hires in March and the annualized growth of only 0.7% in the first quarter are among the factors

casting doubt on the strength of the U.S. economy. The Fed, as we do, views these disappointments as transitional, believing that stronger growth will take shape in the next few quarters. The Fed also pointed out the solid showing in business investment, which posted its best quarterly performance in several years.

The divergence in the main inflation indexes was highlighted by the Fed. Total inflation is more sustained, supported by rising gas prices compared to last year. However, the latest results for core inflation point to a slowdown, which, combined with weak inflation expectations and steady wage growth, suggest that prices are not under much pressure.

These factors saw the Fed pull back in calling for another rate increase in June, especially given the uncertainty clouding the global environment, nor did the Fed make any announcements about new developments to reduce its balance sheet.

IMPLICATIONS

Fed leaders will probably want to make sure economic growth and real consumption are both stronger before it continues raising key rates. Stronger core inflation would also provide an additional guarantee. If the economic situation presses the gas pedal in short order, a rate increase in June cannot be ruled out. This decision will undoubtedly be tight, however. For the moment, we believe that monetary firming will continue in September, followed by another rate hike in December.

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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
January			
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.	0.00
30	Bank of Japan	s.q.	-0.10
February			
1	Federal Reserve	s.q.	0.75
2	Bank of England	s.q.	0.25
6	Reserve Bank of Australia	s.q.	1.50
8	Reserve Bank of New Zealand	s.q.	1.75
9	Bank of Mexico	+50 b.p.	6.25
15	Bank of Sweden	s.q.	-0.50
22	Bank of Korea	s.q.	1.25
22	Bank of Brazil	-75 b.p.	12.25
March			
1	Bank of Canada	s.q.	0.50
6	Reserve Bank of Australia	s.q.	1.50
9	European Central Bank	s.q.	0.00
15	Federal Reserve	+25 b.p.	1.00
15	Bank of Japan	s.q.	-0.10
16	Bank of England	s.q.	0.25
16	Bank of Norway	s.q.	0.50
16	Swiss National Bank	s.q.	-0.75
22	Reserve Bank of New Zealand	s.q.	1.75
30	Bank of Mexico	+25 b.p.	6.50
April			
4	Reserve Bank of Australia	s.q.	1.50
12	Bank of Korea	s.q.	1.25
12	Bank of Brazil	-100 b.p.	11.25
12	Bank of Canada	s.q.	0.50
27	European Central Bank	s.q.	0.00
27	Bank of Sweden	s.q.	-0.50
27	Bank of Japan	s.q.	-0.10
May			
2	Reserve Bank of Australia	s.q.	1.50
3	Federal Reserve	s.q.	1.00
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		
31	Bank of Brazil		
June			
6	Reserve Bank of Australia		
8	European Central Bank		
14	Federal Reserve		
15	Bank of England		
15	Swiss National Bank		
16	Bank of Japan		
21	Reserve Bank of New Zealand		
22	Bank of Norway		
22	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
4	Reserve Bank of Australia		
4	Bank of Sweden		
12	Bank of Korea		
12	Bank of Canada		
20	European Central Bank		
20	Bank of Japan		
26	Bank of Brazil		
26	Federal Reserve		
August			
1	Reserve Bank of Australia		
3	Bank of England		
9	Reserve Bank of New Zealand		
10	Bank of Mexico		
30	Bank of Korea		
September			
5	Reserve Bank of Australia		
6	Bank of Brazil		
6	Bank of Canada		
7	European Central Bank		
7	Bank of Sweden		
14	Bank of England		
14	Swiss National Bank		
20	Federal Reserve		
21	Bank of Norway		
21	Bank of Japan		
27	Reserve Bank of New Zealand		
28	Bank of Mexico		
October			
3	Reserve Bank of Australia		
18	Bank of Korea		
25	Bank of Brazil		
25	Bank of Canada		
26	European Central Bank		
26	Bank of Norway		
26	Bank of Sweden		
31	Bank of Japan		
November			
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		
December			
5	Reserve Bank of Australia		
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 Sweden		
21	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.