

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

First U.S. Key Rate Cut in over Ten Years, but What Will Happen Next Is Unclear

ACCORDING TO THE FED

- ▶ The Committee decided to lower the target range for the federal funds rate by 25 basis points to 2.00% to 2.25%. The Committee will also conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.
- ▶ Information received since the Federal Open Market Committee met in June indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth of household spending has picked up from earlier in the year, growth of business fixed investment has been soft.
- ▶ On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.
- ▶ Uncertainties about the outlook remain. The Committee will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion

status quo out of ten voters. It would have been a bold move, however, for the Fed to do nothing after clearly encouraging investors to expect monetary easing in recent weeks.

At the press conference, Jerome Powell presented today's move as a mid-cycle monetary policy adjustment in response to greater downside risks and muted inflation, rather than as the start of a lengthy monetary easing cycle. The key rate cut can therefore be construed as insurance for maintaining a positive economic situation in the United States. Although it seems relatively optimistic about what comes next, the Fed is keeping the door open to other rate cuts, stressing that the situation remains uncertain. However, by removing the mention that it is monitoring the situation "closely," it wants to avoid committing to another move at September's meeting. This could disappoint some investors and return some volatility to financial markets.

IMPLICATIONS

The Fed has steered a middle course, delivering the expected key rate cut while avoiding a clear promise on additional easing. A second insurance cut to the target for the federal funds rate is likely before the end of the year, but not guaranteed if the economic news remains favourable or if international uncertainty declines.

COMMENTS

As investors and the vast majority of analysts expected, today the Fed cut its key rates for the first time since they were reduced to close to zero in December 2008. It also decided to stop shrinking its balance sheet.

Given that the latest U.S. numbers are fairly encouraging and financial markets continue to do remarkably well, there is cause to wonder whether today's decrease is needed. Some Fed leaders share this scepticism, with two dissenters in favour of the

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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 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
9	Bank of Canada*	s.q.	1.75
22	Bank of Japan	s.q.	-0.10
23	Bank of Korea	s.q.	1.75
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	0.75
30	Federal Reserve	s.q.	2.50
February			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Brazil	s.q.	6.50
7	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25
12	Reserve Bank of New Zealand	s.q.	1.75
13	Bank of Sweden	s.q.	-0.25
27	Bank of Korea	s.q.	1.75
March			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
20	Federal Reserve	s.q.	2.50
21	Bank of England	s.q.	0.75
21	Bank of Norway	+25 b.p.	1.00
21	Swiss National Bank	s.q.	-0.75
26	Reserve Bank of New Zealand	s.q.	1.75
28	Bank of Mexico	s.q.	8.25
April			
1	Reserve Bank of Australia	s.q.	1.50
10	European Central Bank	s.q.	0.00
17	Bank of Korea	s.q.	1.75
24	Bank of Canada*	s.q.	1.75
24	Bank of Japan	s.q.	-0.10
25	Bank of Sweden	s.q.	-0.25
May			
1	Federal Reserve	s.q.	2.50
2	Bank of England	s.q.	0.75
7	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	-25 b.p.	1.50
8	Bank of Brazil	s.q.	6.50
16	Bank of Mexico	s.q.	8.25
29	Bank of Canada	s.q.	1.75
30	Bank of Korea	s.q.	1.75
June			
4	Reserve Bank of Australia	-25 b.p.	1.25
6	European Central Bank	s.q.	0.00
13	Swiss National Bank	s.q.	-0.75
19	Bank of Brazil	s.q.	6.50
19	Bank of Japan	s.q.	-0.10
19	Federal Reserve	s.q.	2.50
20	Bank of England	s.q.	0.75
20	Bank of Norway	+25 b.p.	1.25
25	Reserve Bank of New Zealand	s.q.	1.50
27	Bank of Mexico	s.q.	8.25

Date	Central banks	Decision	Rate
July			
2	Reserve Bank of Australia	-25 b.p.	1.00
3	Bank of Sweden	s.q.	-0.25
10	Bank of Canada*	s.q.	1.75
17	Bank of Korea	-25 b.p.	1.50
25	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10
31	Federal Reserve	-25 b.p.	2.25
31	Bank of Brazil		
August			
1	Bank of England		
6	Reserve Bank of Australia		
6	Reserve Bank of New Zealand		
15	Bank of Mexico		
29	Bank of Korea		
September			
3	Reserve Bank of Australia		
4	Bank of Canada		
5	Bank of Sweden		
12	European Central Bank		
18	Bank of Brazil		
18	Bank of Japan		
18	Federal Reserve		
19	Bank of England		
19	Bank of Norway		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of Mexico		
October			
1	Reserve Bank of Australia		
16	Bank of Korea		
24	European Central Bank		
24	Bank of Sweden		
30	Bank of Brazil		
30	Bank of Canada*		
30	Bank of Japan		
30	Federal Reserve		
November			
5	Reserve Bank of Australia		
7	Bank of England		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
December			
3	Reserve Bank of Australia		
4	Bank of Canada		
11	Bank of Brazil		
11	Federal Reserve		
12	European Central Bank		
12	Swiss National Bank		
18	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Bank of Sweden		
19	Bank of Mexico		

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. * Monetary Policy Report published.