

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

Fed Cuts Key Rates in Response to Risks Associated with the Coronavirus

ACCORDING TO THE FED

- ▶ In a surprise move, the Federal Open Market Committee decided today to lower the target range for the federal funds rate by 50 basis points, to 1.00% to 1.25%.
- ▶ The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity.
- ▶ The Committee is closely monitoring developments and their implications for the economic outlook and will use its tools and act as appropriate to support the economy.

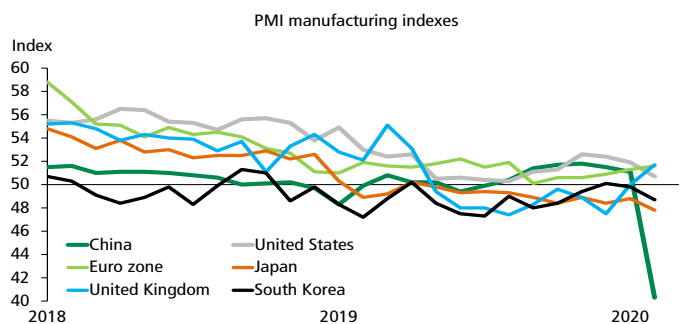
COMMENTS

For the first time since October 2008, Fed leaders have decided to change their key rates between two official monetary policy committee meetings. There is only one reason for the inter-meeting decision: the new risk associated with the COVID-19 virus, which first emerged in China and is now spreading to more countries. The epidemic has already had a significant impact on the financial markets: at last Friday's low, the stock market was down nearly 16% from its peak. Bond yields also followed this negative trajectory, dropping over 80 basis points from the start of 2020.

The virus's economic consequences remain to be seen. It will obviously hurt China, as shown by the tumble taken by its PMI indexes. Neighbouring countries and other countries that are hard hit (South Korea, Japan and Italy, for example) will also be impacted. In the United States, the number of COVID-19 cases is rising, but it remains small. For now, the economic impacts are therefore being caused more by the effects of low Chinese output on the supply of goods to the United States. However, other factors could also have a negative effect, particularly tourism. The effect on household and business confidence could also impact consumption and investment. That

GRAPH

At this point, the economic impacts are concentrated in China



Sources: IHS/Markit, Datastream and Desjardins, Economic Studies

is probably why the Fed responded today: to support the markets and to boost confidence.

Are other Fed cuts now possible? Yes. Especially if signs of contagion are seen in U.S. economic numbers, particularly those related to confidence, which were still very high. Movement by the indicators will therefore be under a close watch.

IMPLICATIONS

The coronavirus epidemic has spoiled the Fed's plans, which seemed to be leaning towards a degree of stability in 2020. The risks to economic growth and the blow to the markets have changed the situation. Other cuts are possible eventually. The other central banks have already responded or are expected to do so in the near future. This should be the case with the Bank of Canada, which is expected to cut its rates by at least 25 basis points tomorrow.

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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 2020 of Central Bank Meetings

| Date | Central banks | Decision | Rate |
|-----------------|-----------------------------|----------|-------|
| January | | | |
| 16 | Bank of Korea | s.q. | 1.25 |
| 20 | Bank of Japan | s.q. | -0.10 |
| 22 | Bank of Canada* | s.q. | 1.75 |
| 23 | European Central Bank | s.q. | 0.00 |
| 23 | Bank of Norway | s.q. | 1.50 |
| 29 | Federal Reserve | s.q. | 1.75 |
| 30 | Bank of England | s.q. | 0.75 |
| February | | | |
| 3 | Reserve Bank of Australia | s.q. | 0.75 |
| 5 | Bank of Brazil | -25 b.p. | 4.25 |
| 11 | Reserve Bank of New Zealand | s.q. | 1.00 |
| 12 | Bank of Sweden | s.q. | 0.00 |
| 13 | Bank of Mexico | -25 b.p. | 7.00 |
| 27 | Bank of Korea | s.q. | 1.25 |
| March | | | |
| 2 | Reserve Bank of Australia | -25 b.p. | 0.50 |
| 3 | Federal Reserve | -50 b.p. | 1.25 |
| 4 | Bank of Canada | | |
| 12 | European Central Bank | | |
| 18 | Bank of Brazil | | |
| 18 | Federal Reserve | | |
| 19 | Bank of Norway | | |
| 19 | Bank of Japan | | |
| 19 | Swiss National Bank | | |
| 24 | Reserve Bank of New Zealand | | |
| 26 | Bank of England | | |
| 26 | Bank of Mexico | | |
| April | | | |
| 7 | Reserve Bank of Australia | | |
| 9 | Bank of Korea | | |
| 15 | Bank of Canada* | | |
| 28 | Bank of Sweden | | |
| 28 | Bank of Japan | | |
| 29 | Federal Reserve | | |
| 30 | European Central Bank | | |
| May | | | |
| 5 | Reserve Bank of Australia | | |
| 6 | Bank of Brazil | | |
| 7 | Bank of England | | |
| 7 | Bank of Norway | | |
| 12 | Reserve Bank of New Zealand | | |
| 14 | Bank of Mexico | | |
| 28 | Bank of Korea | | |
| June | | | |
| 2 | Reserve Bank of Australia | | |
| 3 | Bank of Canada | | |
| 4 | European Central Bank | | |
| 10 | Federal Reserve | | |
| 16 | Bank of Japan | | |
| 17 | Bank of Brazil | | |
| 18 | Bank of England | | |
| 18 | Bank of Norway | | |
| 18 | Swiss National Bank | | |
| 23 | Reserve Bank of New Zealand | | |
| 25 | Bank of Mexico | | |

| Date | Central banks | Decision | Rate |
|------------------|-----------------------------|----------|------|
| July | | | |
| 1 | Bank of Sweden | | |
| 7 | Reserve Bank of Australia | | |
| 15 | Bank of Canada* | | |
| 16 | European Central Bank | | |
| 16 | Bank of Korea | | |
| 22 | Bank of Japan | | |
| 29 | Federal Reserve | | |
| August | | | |
| 4 | Reserve Bank of Australia | | |
| 5 | Bank of Brazil | | |
| 6 | Bank of England | | |
| 11 | Reserve Bank of New Zealand | | |
| 13 | Bank of Mexico | | |
| 20 | Bank of Norway | | |
| 27 | Bank of Korea | | |
| September | | | |
| 1 | Reserve Bank of Australia | | |
| 9 | Bank of Canada | | |
| 10 | European Central Bank | | |
| 16 | Bank of Brazil | | |
| 16 | Federal Reserve | | |
| 17 | Bank of Japan | | |
| 17 | Bank of England | | |
| 22 | Reserve Bank of New Zealand | | |
| 22 | Bank of Sweden | | |
| 24 | Bank of Norway | | |
| 24 | Bank of Mexico | | |
| 24 | Swiss National Bank | | |
| October | | | |
| 5 | Reserve Bank of Australia | | |
| 14 | Bank of Korea | | |
| 28 | Bank of Brazil | | |
| 28 | Bank of Canada* | | |
| 29 | European Central Bank | | |
| 29 | Bank of Japan | | |
| November | | | |
| 2 | Reserve Bank of Australia | | |
| 5 | Bank of England | | |
| 5 | Bank of Norway | | |
| 5 | Federal Reserve | | |
| 10 | Reserve Bank of New Zealand | | |
| 12 | Bank of Mexico | | |
| 26 | Bank of Korea | | |
| 26 | Bank of Sweden | | |
| 30 | Reserve Bank of Australia | | |
| December | | | |
| 7 | Bank of Mexico | | |
| 9 | Bank of Brazil | | |
| 9 | Bank of Canada | | |
| 10 | European Central Bank | | |
| 16 | Federal Reserve | | |
| 17 | Bank of England | | |
| 17 | Bank of Norway | | |
| 17 | Swiss National Bank | | |
| 18 | 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. * Monetary Policy Report published.