

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

Key Rates to Remain at Their Floor for Some Time

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects to maintain this target range until it is confident that the economy has weathered recent events.
- ▶ The Fed will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace.
- ▶ The Fed is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.
- ▶ The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health have induced sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Financial conditions have improved, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

COMMENTS

Fed leaders did not deviate from their recent position. Rates will remain at their floor, and asset purchases will continue. They also held back from providing new information in their statement, particularly regarding future developments to the various measures in place. They still seem hesitant to provide more specific forward guidance. That said, they pointed out that the Fed's balance sheet will continue to grow at the current pace. Therefore, they do not foresee a tapering of asset purchases anytime soon. According to Fed Chair Jerome Powell, discussions are ongoing regarding the type of indication to give the markets about their future policy.

The lack of news in the statement was partially offset by the economic forecast update by Fed leaders. Keep in mind that uncertainty due to the crisis led them not to release a forecast in March. The last forecasting exercise therefore dates back to late 2019. Clearly, the situation has changed since then, and the Fed's outlook shows the scope of the current difficulties. Projected real GDP growth for the end of 2020 dropped to -6.5%, below our forecasts. Projected growth climbed to +5.0% for the end of 2021 and to +3.5% for the end of 2022. The unemployment rate is expected to fall from 13.3% last month to 9.3% by the end of 2020 (fourth quarter average), then to 6.5% by fall 2021 and 5.5% by the end of 2022. Inflation of 0.8% (annual variation in the fourth quarter) is projected for 2020, and is forecast to climb to 1.6% in 2021 and to 1.7% in 2022.

The weaknesses anticipated for the economy, the labour market and inflation will likely keep key rates at their current levels for a long time to come. All 17 participants foresee key rates hovering between 0.00% and 0.25% until the end of 2021. Only 2 participants anticipate a rate hike in 2022, while the other 15 forecast another year of the status quo.

IMPLICATIONS

Key rates will remain at their floor for a long time to come, and asset purchases will continue at the same pace. We will need to wait before the Fed gives us a clearer indication of the direction its policy will take.

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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
26	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	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
April			
7	Reserve Bank of Australia	s.q.	0.25
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
May			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
June			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank	s.q.	0.00
10	Federal Reserve	s.q.	0.25
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.