

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Stays the Course and Will Continue to Support the Economy and Markets

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 it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.
- ▶ The Fed will continue to increase its holdings of Treasury securities by at least US\$80B per month and of agency mortgage-backed securities by at least US\$40B per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals.
- ▶ 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 COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative.
- ▶ The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

COMMENTS

News about the pandemic and the economy changes daily. Sometimes the news is good (vaccines) and sometimes it's more negative (new wave of cases, new public health restrictions and drops in certain indicators). However, despite the latest economic, financial, political and health-related developments, Fed leaders won't be changing their stance. The statement released today offered virtually nothing new compared to the one released in November. The only change was a restatement of the amounts of the Fed's monthly securities purchases and, more importantly, a new forward guidance about maintaining the status quo until the Fed is satisfied with improvements to economic conditions, including inflation. During the press conference, Fed Chair Jerome Powell signalled that "the monetary policy will continue to deliver powerful support to the economy until the recovery is complete."

Fed leaders upgraded their economic forecasts, particularly for 2020, increasing the forecast annual variation in real GDP for the fourth quarter from -3.7% to -2.5% (June's forecast put this variation at -6.5%). Forecasts for growth in real GDP were adjusted upward by 0.2% for 2021 (to 4.2%) and 2022 (to 3.2%). The Fed downgraded its outlook for the jobless rate. Inflation forecasts didn't change much. As for interest rates, the vast majority of Fed leaders do not anticipate a key rate hike before late 2023.

IMPLICATIONS

The Fed feels that the level of support it is currently providing is appropriate. Moreover, its latest forward guidance regarding asset purchases is fairly flexible. It doesn't seem to be in a hurry to reduce its purchases, and appears even less inclined to raise interest rates.

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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
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
15	Bank of Japan	s.q.	-0.10
17	Bank of Brazil	-75 b.p.	2.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Swiss National Bank	s.q.	-0.75
23	Reserve Bank of New Zealand	s.q.	0.25
25	Bank of Mexico	-50 b.p.	5.00

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden	s.q.	0.00
7	Reserve Bank of Australia	s.q.	0.25
14	Bank of Japan	s.q.	-0.10
15	Bank of Korea	s.q.	0.50
15	Bank of Canada*	s.q.	0.25
16	European Central Bank	s.q.	0.00
29	Federal Reserve	s.q.	0.25
August			
4	Reserve Bank of Australia	s.q.	0.25
5	Bank of Brazil	-25 b.p.	2.00
6	Bank of England	s.q.	0.10
11	Reserve Bank of New Zealand	s.q.	0.25
13	Bank of Mexico	-50 b.p.	4.50
20	Bank of Norway	s.q.	0.00
26	Bank of Korea	s.q.	0.50
September			
1	Reserve Bank of Australia	s.q.	0.25
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	s.q.	2.00
16	Bank of Japan	s.q.	-0.10
16	Federal Reserve	s.q.	0.25
17	Bank of England	s.q.	0.10
22	Reserve Bank of New Zealand	s.q.	0.25
22	Bank of Sweden	s.q.	0.00
24	Bank of Norway	s.q.	0.00
24	Bank of Mexico	-25 b.p.	4.25
24	Swiss National Bank	s.q.	-0.75
October			
5	Reserve Bank of Australia	s.q.	0.25
13	Bank of Korea	s.q.	0.50
28	Bank of Brazil	s.q.	2.00
28	Bank of Canada*	s.q.	0.25
28	Bank of Japan	s.q.	-0.10
29	European Central Bank	s.q.	0.00
November			
2	Reserve Bank of Australia	-15 b.p.	0.10
5	Bank of England	s.q.	0.10
5	Bank of Norway	s.q.	0.00
5	Federal Reserve	s.q.	0.25
10	Reserve Bank of New Zealand	s.q.	0.25
12	Bank of Mexico	s.q.	4.25
25	Bank of Korea	s.q.	0.50
26	Bank of Sweden	s.q.	0.00
30	Reserve Bank of Australia	s.q.	0.10
December			
9	Bank of Brazil	s.q.	2.00
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Federal Reserve	s.q.	0.25
17	Bank of England		
17	Bank of Norway		
17	Bank of Japan		
17	Bank of Mexico		
17	Swiss National Bank		

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.