

# ESSENTIALS OF THE MONETARY POLICY

## Federal Reserve (Fed)

### One Small Step Closer to Tapering Bond Purchases

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#### ACCORDING TO THE FED

- ▶ The Committee decided to keep 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.
- ▶ Last December, the Committee indicated that it would 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 its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings.
- ▶ With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.
- ▶ The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

#### COMMENTS

It was clear that the Fed wouldn't be announcing any major changes to its monetary policy at its July meeting. It took its first step toward tapering its bond purchases in June, when Fed officials acknowledged having begun discussing the topic.

However, a more official signal was needed before announcing a tapering. The primary source of interest in today's meeting was whether the Fed was sufficiently confident in the recovery, or sufficiently concerned about inflation, to take things further.

In the end, Fed officials decided to take an additional step today by modifying their statement to signal that the U.S. economy had made progress toward achieving employment and inflation objectives since December. The Fed will continue to assess this progress in upcoming meetings.

At the press conference, Fed Chair Jerome Powell indicated that he wanted to see further progress in the job market before announcing a tapering. Although he is continuing to keep a close eye on the situation, he didn't seem overly concerned about the economic impact of the recent increase in COVID-19 cases.

#### IMPLICATIONS

The Fed is maintaining a fair amount of wiggle room for future developments, but it took a further step toward beginning to gradually reduce its quantitative policy. The Jackson Hole meeting in late August may be an occasion to provide a clearer indication as to whether the Fed plans to move from words to action at its September meeting. Beyond the exact timing of the tapering, which will depend on economic data and pandemic developments, we will need to keep an eye on the pace at which bond purchases will be reduced and the possibility that the Fed will decide to speed up terminating mortgage-backed securities purchases to reduce the risk of an overheated housing market.

# Schedule 2021 of Central Bank Meetings

| Date            | Central banks               | Decision | Rate  |
|-----------------|-----------------------------|----------|-------|
| <b>January</b>  |                             |          |       |
| 14              | Bank of Korea               | s.q.     | 0.50  |
| 20              | Bank of Brazil              | s.q.     | 2.00  |
| 20              | Bank of Canada*             | s.q.     | 0.25  |
| 20              | Bank of Japan               | s.q.     | -0.10 |
| 21              | European Central Bank       | s.q.     | 0.00  |
| 21              | Bank of Norway              | s.q.     | 0.00  |
| 27              | Federal Reserve             | s.q.     | 0.25  |
| <b>February</b> |                             |          |       |
| 1               | Reserve Bank of Australia   | s.q.     | 0.10  |
| 4               | Bank of England             | s.q.     | 0.10  |
| 10              | Bank of Sweden              | s.q.     | 0.00  |
| 11              | Bank of Mexico              | -25 b.p. | 4.00  |
| 23              | Reserve Bank of New Zealand | s.q.     | 0.25  |
| 24              | Bank of Korea               | s.q.     | 0.50  |
| <b>March</b>    |                             |          |       |
| 1               | Reserve Bank of Australia   | s.q.     | 0.10  |
| 10              | Bank of Canada              | s.q.     | 0.25  |
| 11              | European Central Bank       | s.q.     | 0.00  |
| 17              | Bank of Brazil              | +75 b.p. | 2.75  |
| 17              | Federal Reserve             | s.q.     | 0.25  |
| 18              | Bank of England             | s.q.     | 0.10  |
| 18              | Bank of Norway              | s.q.     | 0.00  |
| 19              | Bank of Japan               | s.q.     | -0.10 |
| 25              | Bank of Mexico              | s.q.     | 4.00  |
| 25              | Swiss National Bank         | s.q.     | -0.75 |
| <b>April</b>    |                             |          |       |
| 6               | Reserve Bank of Australia   | s.q.     | 0.10  |
| 13              | Reserve Bank of New Zealand | s.q.     | 0.25  |
| 14              | Bank of Korea               | s.q.     | 0.50  |
| 21              | Bank of Canada*             | s.q.     | 0.25  |
| 22              | European Central Bank       | s.q.     | 0.00  |
| 27              | Bank of Sweden              | s.q.     | 0.00  |
| 27              | Bank of Japan               | s.q.     | -0.10 |
| 28              | Federal Reserve             | s.q.     | 0.25  |
| <b>May</b>      |                             |          |       |
| 4               | Reserve Bank of Australia   | s.q.     | 0.10  |
| 5               | Bank of Brazil              | +75 b.p. | 3.50  |
| 6               | Bank of England             | s.q.     | 0.10  |
| 6               | Bank of Norway              | s.q.     | 0.00  |
| 13              | Bank of Mexico              | s.q.     | 4.00  |
| 25              | Reserve Bank of New Zealand | s.q.     | 0.25  |
| 26              | Bank of Korea               | s.q.     | 0.50  |
| <b>June</b>     |                             |          |       |
| 1               | Reserve Bank of Australia   | s.q.     | 0.10  |
| 9               | Bank of Canada              | s.q.     | 0.25  |
| 10              | European Central Bank       | s.q.     | 0.00  |
| 16              | Bank of Brazil              | +75 b.p. | 4.25  |
| 16              | Federal Reserve             | s.q.     | 0.25  |
| 17              | Bank of Norway              | s.q.     | 0.00  |
| 17              | Swiss National Bank         | s.q.     | -0.75 |
| 18              | Bank of Japan               | s.q.     | -0.10 |
| 24              | Bank of England             | s.q.     | 0.10  |
| 24              | Bank of Mexico              | +25 b.p. | 4.25  |

| Date             | Central banks               | Decision | Rate  |
|------------------|-----------------------------|----------|-------|
| <b>July</b>      |                             |          |       |
| 1                | Bank of Sweden              | s.q.     | 0.00  |
| 6                | Reserve Bank of Australia   | s.q.     | 0.10  |
| 13               | Reserve Bank of New Zealand | s.q.     | 0.25  |
| 14               | Bank of Canada*             | s.q.     | 0.25  |
| 14               | Bank of Korea               | s.q.     | 0.50  |
| 16               | Bank of Japan               | s.q.     | -0.10 |
| 22               | European Central Bank       | s.q.     | 0.00  |
| 28               | Federal Reserve             | s.q.     | 0.25  |
| <b>August</b>    |                             |          |       |
| 3                | Reserve Bank of Australia   |          |       |
| 4                | Bank of Brazil              |          |       |
| 5                | Bank of England             |          |       |
| 12               | Bank of Mexico              |          |       |
| 17               | Reserve Bank of New Zealand |          |       |
| 19               | Bank of Norway              |          |       |
| 25               | Bank of Korea               |          |       |
| <b>September</b> |                             |          |       |
| 7                | Reserve Bank of Australia   |          |       |
| 8                | Bank of Canada              |          |       |
| 9                | European Central Bank       |          |       |
| 21               | Bank of Sweden              |          |       |
| 22               | Bank of Brazil              |          |       |
| 22               | Bank of Japan               |          |       |
| 22               | Federal Reserve             |          |       |
| 23               | Bank of England             |          |       |
| 23               | Bank of Norway              |          |       |
| 23               | Swiss National Bank         |          |       |
| 30               | Bank of Mexico              |          |       |
| <b>October</b>   |                             |          |       |
| 4                | Reserve Bank of Australia   |          |       |
| 5                | Reserve Bank of New Zealand |          |       |
| 11               | Bank of Korea               |          |       |
| 27               | Bank of Brazil              |          |       |
| 27               | Bank of Canada*             |          |       |
| 28               | European Central Bank       |          |       |
| 28               | Bank of Japan               |          |       |
| <b>November</b>  |                             |          |       |
| 1                | Reserve Bank of Australia   |          |       |
| 3                | Federal Reserve             |          |       |
| 4                | Bank of England             |          |       |
| 4                | Bank of Norway              |          |       |
| 11               | Bank of Mexico              |          |       |
| 23               | Reserve Bank of New Zealand |          |       |
| 24               | Bank of Korea               |          |       |
| 25               | Bank of Sweden              |          |       |
| <b>December</b>  |                             |          |       |
| 6                | Reserve Bank of Australia   |          |       |
| 8                | Bank of Brazil              |          |       |
| 8                | Bank of Canada              |          |       |
| 15               | Federal Reserve             |          |       |
| 16               | European Central Bank       |          |       |
| 16               | Bank of England             |          |       |
| 16               | Bank of Norway              |          |       |
| 16               | Bank of Mexico              |          |       |
| 16               | Swiss National Bank         |          |       |
| 17               | 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.