

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

Rake Hikes Coming Soon

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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%.
- ▶ With inflation well above 2% and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate.
- ▶ The Committee decided to continue to reduce the monthly pace of its net asset purchases, bringing them to an end in early March.
- ▶ Indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months but are being affected by the recent sharp rise in COVID-19 cases. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative.
- ▶ Risks to the economic outlook remain, including from new variants of the virus.

COMMENTS

The Omicron variant's risk to the economy as well as the lack of clear signals during December's meeting pointed to staying the course on rates at today's meeting. However, the Fed still made some major decisions. First, it cleared the way for a rate hike as early as the next meeting on March 16. The Fed's officials also decided to reduce their security purchases once again so that the quantitative policy ends by the time of the March meeting. Lastly, they released the principles framing any future reduction in the size of the Fed's balance sheet.

In its statement, the Fed seems to be satisfied with the progress that the job market has made. Still, it's clearly the inflationary pressure that is causing it to lay the groundwork for the normalization of its monetary policy. The sentence signalling that the right time to raise interest rates is fast approaching also mentions inflation well above the 2% target. The most recent speeches by the Fed's officials also implied that they are keeping their eyes on inflation.

Does an imminent rate hike imply that there will be many? In December, the median forecasts of the Fed's officials assumed three 25 basis-point increases in 2022. During today's press conference, Fed Chair Jerome Powell indicated that no path or timeframe had been set yet for increasing key rates. He said that they will be guided by the evolution of indicators and the economic outlook. That said, the Fed is expected to be less patient than at the beginning of the previous cycle of rate increases in 2015. Overall, it's easy to imagine that the Fed will react to higher inflation above all else. It looks like there will be at least three rate hikes of 25 basis points each in March, June and September. However, if inflation doesn't fall as anticipated, there may be more hikes. Still, it's important to keep in mind that future rate hikes will occur at the same time as the Fed reduces the size of its balance sheet, which is expected to be faster this time than the last.

IMPLICATIONS

After nearly two years of rates at their effective lower bound, the first key rate hike should happen in March, followed by at least two more in 2022.

Schedule 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
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
February			
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
March			
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
18	Bank of Japan	s.q.	-0.10
25	Bank of Mexico	s.q.	4.00
25	Swiss National Bank	s.q.	-0.75
April			
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
26	Bank of Japan	s.q.	-0.10
27	Bank of Sweden	s.q.	0.00
28	Federal Reserve	s.q.	0.25
May			
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
June			
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	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75
24	Bank of England	s.q.	0.10
24	Bank of Mexico	+25 b.p.	4.25

Date	Central banks	Decision	Rate
July			
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
15	Bank of Japan	s.q.	-0.10
22	European Central Bank	s.q.	0.00
28	Federal Reserve	s.q.	0.25
August			
3	Reserve Bank of Australia	s.q.	0.10
4	Bank of Brazil	+100 b.p.	5.25
5	Bank of England	s.q.	0.10
12	Bank of Mexico	+25 b.p.	4.50
17	Reserve Bank of New Zealand	s.q.	0.25
19	Bank of Norway	s.q.	0.00
25	Bank of Korea	+25 b.p.	0.75
September			
7	Reserve Bank of Australia	s.q.	0.10
8	Bank of Canada	s.q.	0.25
9	European Central Bank	s.q.	0.00
21	Bank of Sweden	s.q.	0.00
21	Bank of Japan	s.q.	-0.10
22	Bank of Brazil	+100 b.p.	6.25
22	Federal Reserve	s.q.	0.25
23	Bank of England	s.q.	0.10
23	Bank of Norway	+25 b.p.	0.25
23	Swiss National Bank	s.q.	-0.75
30	Bank of Mexico	+25 b.p.	4.75
October			
4	Reserve Bank of Australia	s.q.	0.10
5	Reserve Bank of New Zealand	+25 b.p.	0.50
11	Bank of Korea	s.q.	0.75
27	Bank of Brazil	+150 b.p.	7.75
27	Bank of Japan	s.q.	-0.10
27	Bank of Canada*	s.q.	0.25
28	European Central Bank	s.q.	0.00
November			
1	Reserve Bank of Australia	s.q.	0.10
3	Federal Reserve	s.q.	0.25
4	Bank of England	s.q.	0.10
4	Bank of Norway	s.q.	0.25
11	Bank of Mexico	+25 b.p.	5.00
23	Reserve Bank of New Zealand	+25 b.p.	0.75
24	Bank of Korea	+25 b.p.	1.00
25	Bank of Sweden	s.q.	0.00
December			
6	Reserve Bank of Australia	s.q.	0.10
8	Bank of Brazil	+150 b.p.	9.25
8	Bank of Canada	s.q.	0.25
15	Federal Reserve	s.q.	0.25
16	European Central Bank	s.q.	0.00
16	Bank of England	+15 b.p.	0.25
16	Bank of Norway	+25 b.p.	0.25
16	Bank of Mexico	+50 b.p.	5.50
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	s.q.	-0.75

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.

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia		
February			
2	Bank of Brazil		
3	European Central Bank		
3	Bank of England		
10	Bank of Sweden		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
28	Reserve Bank of Australia		
March			
2	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of England		
17	Bank of Japan		
24	Bank of Norway		
24	Bank of Mexico		
**	Swiss National Bank		
April			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
14	European Central Bank		
27	Bank of Japan		
28	Bank of Sweden		
May			
3	Reserve Bank of Australia		
4	Bank of Brazil		
4	Federal Reserve		
5	Bank of England		
5	Bank of Norway		
12	Bank of Mexico		
24	Reserve Bank of New Zealand		
25	Bank of Korea		
June			
1	Bank of Canada		
7	Reserve Bank of Australia		
9	European Central Bank		
15	Bank of Brazil		
15	Federal Reserve		
16	Bank of England		
16	Bank of Japan		
23	Bank of Norway		
23	Bank of Mexico		
30	Bank of Sweden		
**	Swiss National Bank		

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
20	Bank of Japan		
21	European Central Bank		
27	Federal Reserve		
August			
2	Reserve Bank of Australia		
3	Bank of Brazil		
4	Bank of England		
11	Bank of Mexico		
16	Reserve Bank of New Zealand		
18	Bank of Norway		
24	Bank of Korea		
September			
6	Reserve Bank of Australia		
7	Bank of Canada		
8	European Central Bank		
15	Bank of England		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
29	Bank of Mexico		
**	Bank of Sweden		
**	Swiss National Bank		
October			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
November			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
**	Bank of Sweden		
December			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
19	Bank of Japan		
**	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; ** To be determined.