

Macro Focus

Fed update: No big surprises

- ▶ The federal funds rate was left unchanged, but a 5 bps increase of the IOER
- ▶ We continue to expect federal funds rate to be unchanged although risks are leaning towards more easing

As widely expected, the target range for the federal funds rate was left unchanged at 1.50-1.75 percent yesterday. The decision was unanimous. The statement was almost identical to the one in December and confirms the view of recent communication from committee members stating that monetary policy is in a good place. Thus, they do not see any need to alter the stance of the monetary policy - if the outlook does not change materially.

Overall, the statement repeated the December message of a strong labor market and that growth has been rising at a moderate pace, meanwhile business investments and exports been weak. One modification to the statement was that household spending has been rising at a moderate pace instead of strong, reflecting the weaker development in core retail sales in the latter part of 2019. **They also changed the language of inflation “returning” to the target instead of previously getting inflation “near” the target.** At the press conference Chairman Jerome Powell elaborated that it was to avoid any misunderstandings that **the 2% inflation target is not a ceiling and that they are not satisfied with inflation running below 2%.** Overall, a slightly dovish move. Powell also noted that recent trade deals is a positive thing for the economy, but that trade policy uncertainty remains elevated.

The committee made technical adjustment to the interest rate on excess reserves (IOER) in order to move the effective federal funds rate closer to the middle of the target range. The IOER rate was lifted from 1.55 to 1.60 percent. It is the interest rate banks receive on the excess reserves they hold at the Federal Reserve. This does not represent a change of stance of monetary policy. Also, purchases of treasury bills will continue at least into the second quarter in order to maintain ample reserve balances at or above the level that prevailed in early September 2019 (before the spike in short-term rates) and repo operations will continue at least through April. The offering rate of overnight (or longer when needed) reverse repo rates was also raised with 5 bps to 1.50 percent.

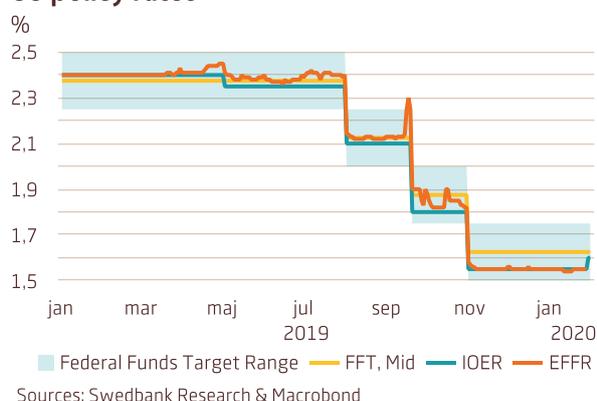
Fed Funds Target Rate

Actual & forecasts, %



Sources: Swedbank Research & Macrobond

US policy rates



Sources: Swedbank Research & Macrobond

No new forecasts were published at this meeting. The dot plot from December suggests no rate change in 2020 but a rate hike in 2021. Markets, however, continue to expect a rate cut in the second half of this year. We continue to expect that the federal funds rate will be unchanged throughout 2021 as we expect the development to be good enough to not warrant another cut. We do however believe that the risk picture is tilted for another cut since inflation pressures remains subdued and the risk of a deteriorating economic outlook.

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