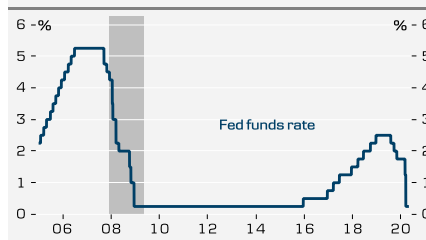


Fed Monitor

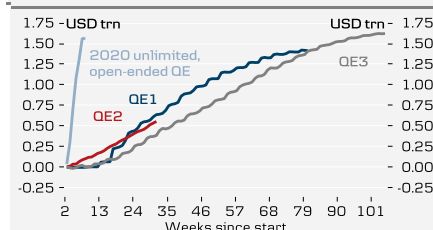
Fed chair Powell hints more Fed support is coming

- On the economy, the Fed expects a rebound in the second half of the year, as the economy reopens.** Basically, this is in line with our expectation of a U-shaped recovery. The Fed emphasises that they are not very confident in this outlook and sees the virus outbreak as a big risk to the economy, also over the “medium term” (1-1.5 years ahead). There is no doubt that the Fed fears that we could be in the beginning of a prolonged recession. The Fed also fears of potential long-term damages to the economy stemming from a long crisis. Fed chair Powell highlighted that the economic forecasts are more uncertain than usual given the current circumstances, as the health outcomes are “highly uncertain”, according to the experts briefing the Fed. We agree with these views.
- The key message on rates is that the Fed is happy with the target range at 0.00-0.25%.** The Fed did not change its forward guidance and still says that it will maintain the current target range until the economy “*has weathered recent events and is on track to achieve its maximum employment and price stability goals*”. Fed chair Powell said that the Fed will be “patient” and is “in no hurry” to hike rates. On the other hand, if the biggest economic crisis in modern times have not already forced the Fed to cut rates down to negative territory, it is difficult to see what should, especially now that things (fingers crossed) are moving in the right direction with the number of infections. At several occasions during the Q&A, Fed chair Powell referred to the current level as the “effective lower bound”, which also indicates that the Fed will not cut into negative. We think the Fed will keep rates at the current level at least through 2021. We think current market pricing is fair, which Fed chair Powell also said during the press conference.
- The Fed kept its flexibility on QE by keep saying that it will buy “in the amount needed” to support the economy.** There had been some speculations that the Fed could change to a specific amount but it did not happen. In our view, this is positive, as it shows the Fed is determined in supporting the economy. So far, QE buying has been a lot faster than we saw during QE1, QE2 and QE3.
- On fiscal policy, Fed chair Powell said that he thinks Congress should do more and that this is not the time to worry about increasing federal debt.**
- On the Fed’s many different facilities, Fed chair Powell highlighted that the Fed will not run out of money.** The Fed can change conditions and sizes as needed. We saw that recently when the Fed announced an expansion of the scope and duration of the Municipal Liquidity Facility.
- The Fed does not fear a negative deflation spiral, as inflation expectations are holding up.**
- Fed chair Powell also highlighted that the Fed is likely to do more.** With rates at the effective lower bound and a very flexible QE programme, new measures would likely be in form of changes to existing liquidity facilities or new ones. **The statement says that the Fed “will use its tools and act as appropriate to support the economy”.**

Fed is satisfied with the target range at 0.00-0.25%

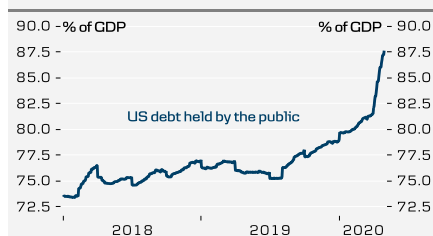


Fed QE buying is much faster than what we saw during the financial crisis



Sources: Federal Reserve, Macrobond Financial

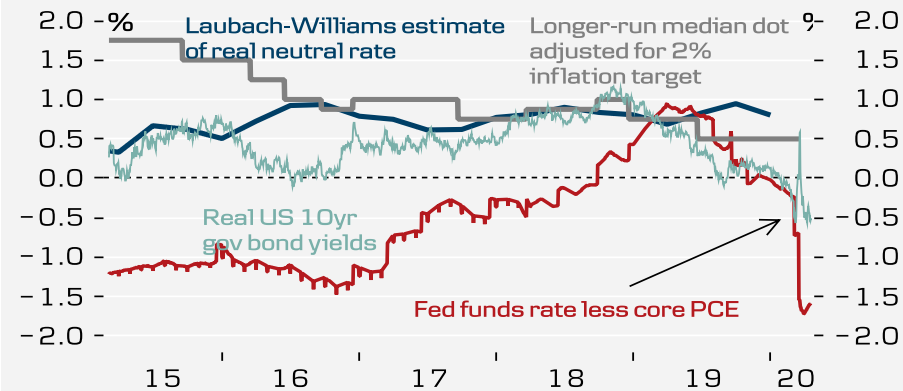
The Fed wants US Congress to do more and not to worry about the sharp rise in federal debt



Sources: US Treasury, Federal Reserve, Macrobond Financial

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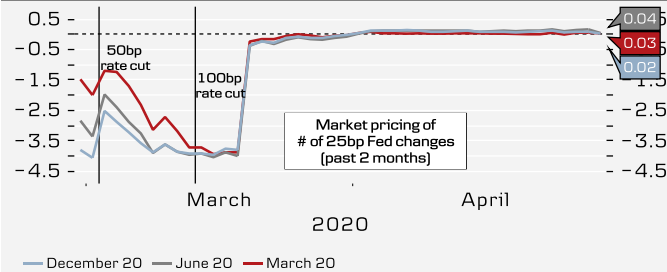
Monetary policy is accommodative



Note: Past performance is not a reliable indicator of current or future results.
Source: Federal Reserve, Bloomberg, NY Fed, BEA, Macrobond Financial, Danske Bank

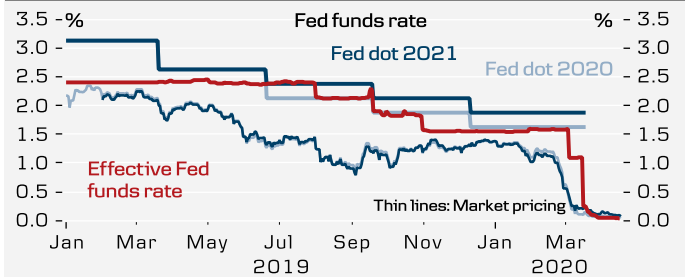
Fed charts

Markets do not expect the Fed to change its target range in either direction



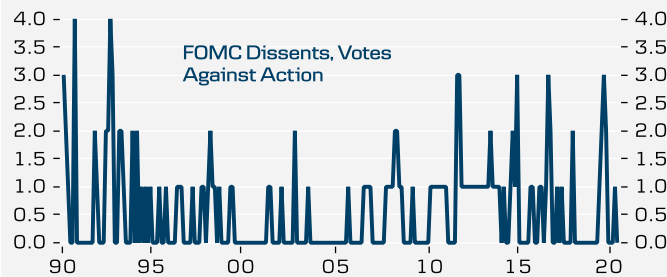
Note: Past performance is not a reliable indicator of current or future results.
Source: Federal Reserve, Bloomberg, Macrobond Financial, Danske Bank calculations

Fed chair Powell said investors are right not to price in rate hikes near-term



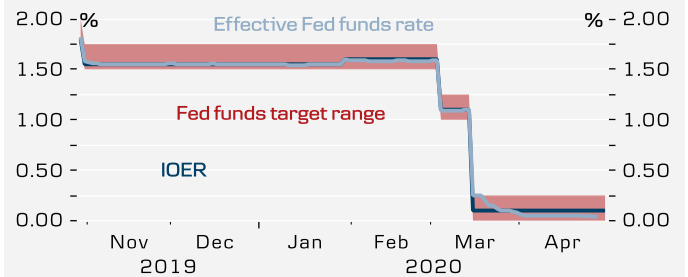
Note: Past performance is not a reliable indicator of current or future results.
Source: Federal Reserve, Bloomberg, Macrobond Financial, Danske Bank

The FOMC members agreed on today's action



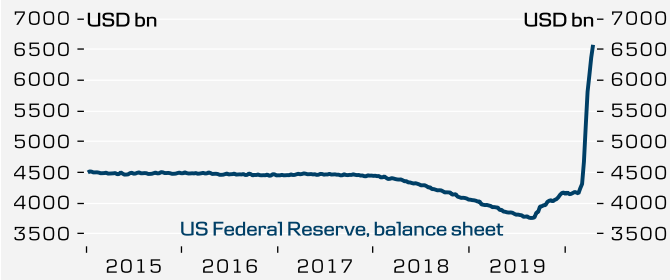
Source: St Louis Fed, Macrobond Financial, Danske Bank

IOER rate was unchanged despite the effective Fed funds rate is in the lower end of the target range



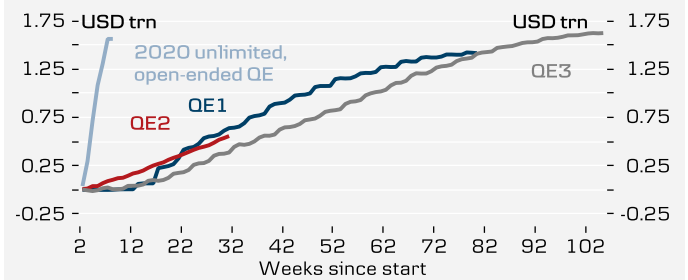
Note: Past performance is not a reliable indicator of current or future results.
Source: Federal Reserve, Macrobond Financial, Danske Bank

US balance sheet has been increasing rapidly



Source: Federal Reserve, Macrobond Financial, Danske Bank

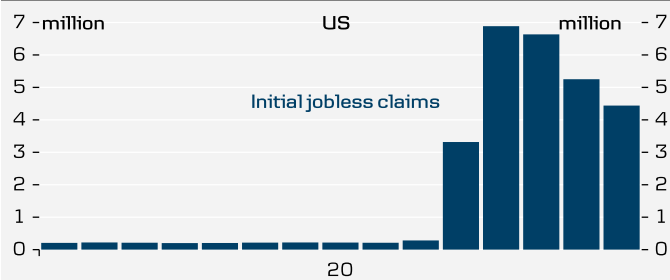
Fed QE buying is much faster than what we saw during the financial crisis



Sources: Federal Reserve, Macrobond Financial

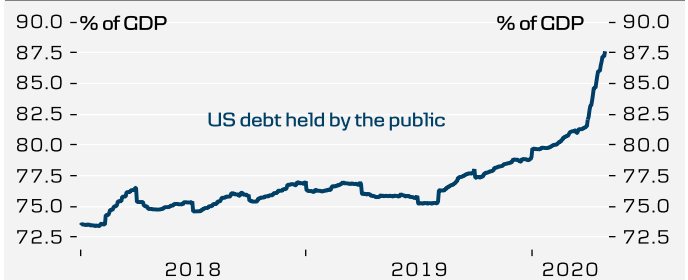
Macro charts

More than 26 million jobless claims in the last five weeks



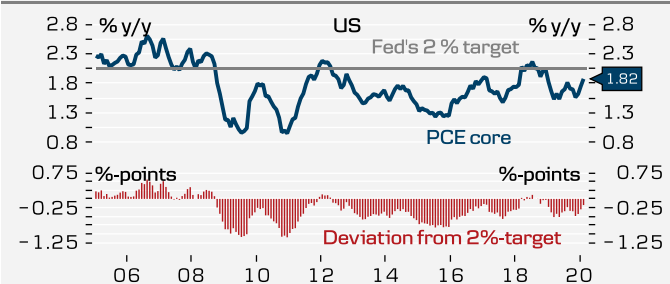
Source: US Department of Labour, Macrobond Financial, Danske Bank

The Fed wants US Congress to do more and not to worry about the sharp rise in federal debt



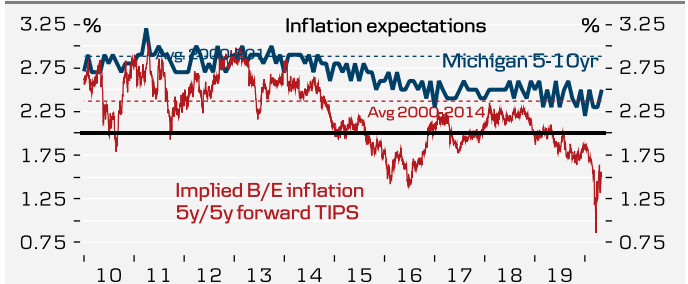
Sources: US Treasury, Federal Reserve, Macrobond Financial

PCE core inflation continues to run below the 2% target



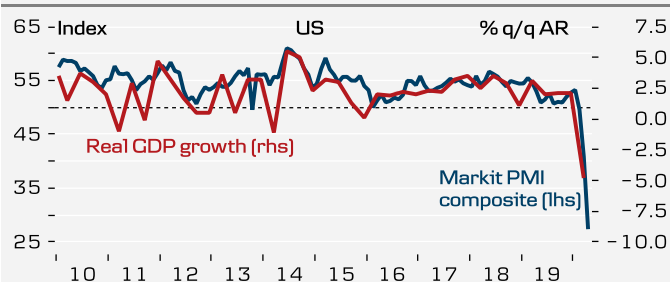
Source: BEA, Macrobond Financial, Danske Bank

Inflation expectations have recovered but remain subdued



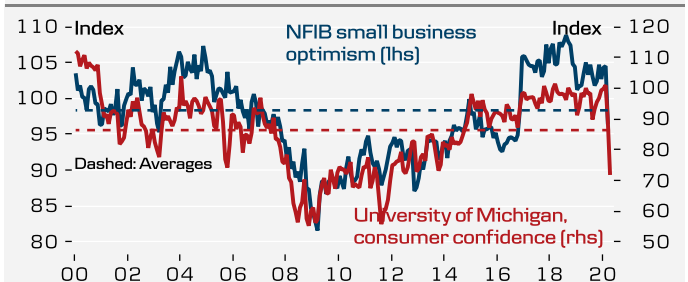
Source: Michigan, Bloomberg, Macrobond Financial, Danske Bank

US Q2 GDP to be even worse than in Q1



Source: BEA, IHS Markit, Macrobond Financial, Danske Bank

Confidence indicators have fallen below their historical averages



Source: NFB, University of Michigan, Macrobond Financial, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Mikael Olai Milhøj, Senior Analyst.

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Date of first publication

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