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Flash

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FOMC keeps it simple

FOMC left, as widely expected, its policy stance unchanged…

…and gave no hint whatsoever on when it might tighten policy again…

…probably to avoid markets to start speculating on a March rate increase.

More details about content and timing fiscal policy are needed..

…before the FOMC draws policy conclusions

Dull statement unlikely to offend the easily inflammable new president

Little changes in economic situation.

The FOMC confirmed that the labour market continued to strengthen and that economic activity has continued to expand at a moderate pace. They made no important changes in their description of the labour market nor on business fixed investment (soft) or household spending (rise moderately). **One sentences was added: *"Measures of consumer and business sentiment have improved of late"*.**

The FOMC made no big changes on inflation either which increased in recent quarters, but is still below the 2% long-run projection. The statement no longer refers to the earlier declines in energy and import prices as one of the reasons for the low inflation. This is logical as the previous decline in energy prices is now almost out the Y/Y comparison. The Fed made no changes in the assessment of market-based measures of inflation compensation (remain low), nor on the survey-based measures of longer-term inflation expectations (little changed).

Gradual adjustments in policy

The FOMC kept the key sentence that ***"with gradual adjustments in the stance of monetary policy**, economic activity will expand at a moderate pace, labour market conditions will strengthen somewhat further **and inflation will rise to 2% over the medium term."*** Here, the FOMC shows itself more confident on inflation rising to the objective. In December, the statement said: "Inflation is expected to rise…". Finally, as in December the **near term risks to the economic outlook appear to be balanced** and the Committee continues to **closely monitor inflation indicators and global economic and financial developments**. So, also in the second paragraph, there were no real important changes compared to the December statement besides the stronger conviction inflation will rise to 2% over the medium term.

Policy stance remains accommodative

The third and fourth paragraph contains no noticeable changes. We replicate the main, key phrase: *"The Committee expects that economic conditions will evolve in a manner that will warrant **only gradual increases** in the federal funds rate; the federal funds rate is likely to remain, for some time,* **below levels that are expected to prevail in the longer run.** *However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."*

No hint on debate on the size balance sheet

The fifth paragraph literally repeated that the Fed will keep its policy of reinvesting maturing assets unchanged *"until the normalization of the level of the Fed funds rate is well under way."* The decision/statement was taken unanimous.

Market reaction: dovish

Markets were positioned for a somewhat more hawkish statement following comments of several governors including chairwoman Yellen in recent weeks. The T-Note future rose 6/32 in the forty minutes after the release. Equities initially went slightly higher, but lost their tiny gains.

The dollar lost somewhat more ground, as EUR/USD trades now around 1.0780 from 1.0740 on the release. We don't expect the FOMC statement to have longer-lasting effects. Markets will soon concentrate on the eco and inflation data and on the policy intentions of president Trump.

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