The Fed Focus Shifts To The Minutes

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- **The FOMC delivered a bland maintenance statement that successfully failed to inspire any material rethinking of the policy outlook.** The USD nevertheless strengthened a touch and the two year Treasury yield increased by 1bp. Though they are modest market reactions, they may reflect position unwinding more than anything about the statement itself.
- **Only two word references changed in this statement comparison and they cancel each other out to a neutral take at the margin.** They flagged a declining UR (not just 'stayed low') which is just observing the data while recognizing the improvement. Recall that the UR fell two-tenths to 3.7% in September—the lowest since December 1969—and was then flat in October. They also downgraded the description of business investment momentum to now say it "has moderated." That's a polite way of referencing how investment in structures fell by 7.9% q/q in Q3 after two quarters of strong increases while equipment investment was flat (+0.4%) after a string of strong quarterly gains. These wording changes do not or surprise, or at least they should not. Everything else about the statement's wording was left unchanged.
- **What's not in here is more interesting than the minor word tweaks.** Not that any of the points below were expected in the statement, but the absence of hints or delivery of tail risks to expectations is at least worth flagging as some of the possible position unwinding in markets might have expected some of these developments.
    1. There was no IOER change or comments on short-term rates markets. This may be discussed in the minutes three weeks from now.
    2. There was no hint at a hike in December. That's more likely if 'soon' gets inserted into the minutes three weeks from now which is the usual way the Fed does so.
    3. There was no hint at a changed outlook which didn't make sense to expect anyway. Any tweaks to numbers of the narrative would come in the December meeting and forecasts.
    4. There was zero hint at a balance sheet discussion. They were extremely unlikely to do that in the statement anyway given a lack of other complementary communications and given Simon Potter's speech on October 26th that basically signalled that the Fed is fine about the state of its unwinding balance sheet plans. See the morning note for more about this. We may see a balance sheet discussion in the minutes and/or they have until the December meeting to have this dialogue and still stick within guidance they would do so within the Fall.
- Please see the attached statement comparison.
- Note that **Fed Chair Powell speaks about the global and US economies next Wednesday**.
- Also pay close attention to next week's evidence on tariff pass-through effects in CPI and retail sales. I'll have more about this in the Global Week Ahead.
- Minutes to this meeting arrive on Thursday November 29th.
- **The next FOMC meeting will be on December 18th–19th** and will conclude with the release of a statement and a full forecast update after which Chair Powell will host a press conference.

RELEASE DATE: NOVEMBER 8, 2018

Information received since the Federal Open Market Committee met in September indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and ***the unemployment rate has declined***. Household spending has continued to grow strongly, while ***growth of business fixed investment has moderated from its rapid pace earlier in the year***. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 2 to 2-1/4 percent.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

Voting for the FOMC monetary policy action were: Jerome H. Powell, Chairman; John C. Williams, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; Richard H. Clarida; Mary C. Daly; Loretta J. Mester; and Randal K. Quarles.

RELEASE DATE: SEPTEMBER 26, 2018

Information received since the Federal Open Market Committee met in August indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2 to 2-1/4 percent.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

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