The Fed Is Still Not Talking

- **This was a placeholder meeting with slightly upgraded language**
- **2s10s bull flattened, but no taper talk should not have surprised**

Well, apparently someone was surprised to hear Powell say that the FOMC did not talk about tapering at this meeting! When they heard that comment in the press conference, it drove a mild rally in US 10s and slightly firmer stocks. That was a more dominant market effect than resulted from the mildly upgraded language in the statement that itself would have surprised few. As expected, there were no policy changes at this meeting including no change to the IOER de facto policy rate.

Market reactions

The US 10 year yield fell by about 3–4bps after the full suite of communications with the 2 year about ~1bp lower and so 2s10s flattened. The USD was slightly firmer by about ¼% on a DXY basis. The S&P 500 edged very slightly higher (0.1%). In all, Powell would consider it job well done as he didn't bomb the market ahead of President Biden's speech tonight.

Statement changes

All of the modest statement changes were concentrated in the second and third paragraphs as noted in the accompanying statement comparison (next page). In general, the changes sound a bit more positive in nature and of the common sense variety.

Press conference

The first question during the press conference was about whether the FOMC felt it was time to 'start talking about talking about tapering' and Powell simply said "no, we've said we would talk well in advance and it is not yet time to do so. We still need substantial further progress which will take some time to achieve." No surprise there!

Powell was also asked whether herd immunity or confidence that the pandemic would not resurface would be required before normalizing policy. He was asked if they would require the CDC to wave the all-clear sign or the WHO to downgrade pandemic warnings. Powell indicated that while the virus is controlling the economy, they stick to the criteria that substantial further progress on the dual mandate is required but it's likely that would co-exist with improved virus control but not necessarily requiring that the virus be fully under control.

The last question worth flagging is that Powell was asked what would happen if inflation expectations moved up before returning to full employment? How would you react? He said that it seems unlikely that would occur and that it seems more likely if the Fed saw full employment that they would see actual inflation moving up to target. Powell noted that persistent inflation would take some time and would require very strong labour markets, but that their long-run statement indicates that when the two measures conflict there are other factors they would consider but without saying how.

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The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. ***Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened***. The sectors most adversely affected by the pandemic remain weak ***but have shown improvement***. Inflation ***has risen, largely reflecting transitory factors.*** Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. ***The ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain.***

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

RELEASE DATE: MARCH 17, 2021

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. ***Following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently***, although the sectors most adversely affected by the pandemic remain weak. ***Inflation continues to run below 2 percent***. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. ***The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.***

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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