

Central Banks

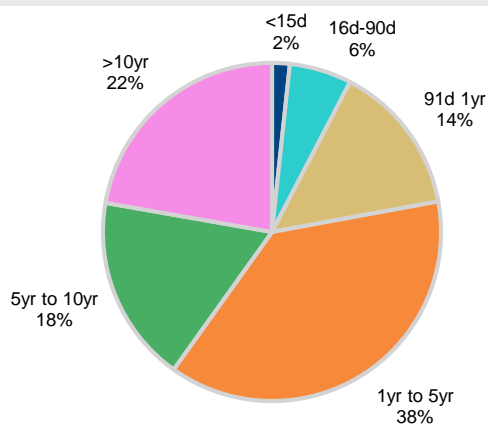
FOMC allows dust to settle while it prepares for next phase

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Today's lackluster statement was not surprising given the major policy changes that preceded the meeting, evolving risks with respect to containment efforts for Covid-19 and the fact that there has been no definitive winner in the 2020 presidential election, which has generated elevated uncertainty. In a similar vein, the committee unanimously supported the post-meeting communication in another sign that the Fed remains a pillar of unity and stability in uncertain times.

The assessment of economic conditions was aligned with our view of ongoing improvements albeit at a significantly reduced pace. Similar to last meeting "weaker demand" and "earlier" declines in oil prices have weighed on consumer prices. The statement also revised the committee's view that financial conditions remain accommodative rather than "improved", suggesting that the balance sheet policy has reached a steady-state and any future changes in strategy would be undertaken if the committee sought to increase accommodation; an undertaking that may be required given the rise in cases, more bleak predictions about health outcomes in 4Q20 and headwinds building abroad.

Figure 1. **FED: MATURITY DISTRIBUTION OF TREASURY HOLDINGS**



Source: BBVA Research and FRB

Figure 2. **FINANCIAL STRESS INDEX 2020 (0=AVERAGE STRESS)**



Source: BBVA Research, FRB, OFR and Haver

At the press conference, Chair Powell stressed the uneven impact of the pandemic on minorities, females, younger and lower-skilled workers, as well as the elevated uncertainty around the economic outlook, the extended period before the economy can fully recover and the need for ongoing monetary and fiscal support. Powell also indicated that members discussed the role of LSAP and will continue to assess how the program can better support economic conditions and financial stability. In addition, starting in December, the Fed will release the entire package of Summary of Economic Projections at the same time as the FOMC statement rather than with the minutes three weeks later, and will add two new graphs to showcase the balance of risks over time, shedding light on the committee's risk management considerations.

Today's statement and press conference reaffirms the Fed's strategy that interest rates will not rise until labor market conditions are consistent with maximum employment and inflation has returned to 2% and on track to modestly exceed this level for some time. This confirms our view that rates will remain low for several years. While the recovery has exceeded expectations in many respects there is a risk that the pandemic leaves lasting scars that could impede the Fed's ability to achieve its longer-term goals without the support of fiscal policy.

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