

Fed Watch

US

October 30, 2013
Economic Analysis

US

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FOMC Statement: October 29 – 30th

Pace of Purchases Kept Unchanged Awaiting Better Data

- FOMC left the \$85 billion monthly pace of purchases unchanged
- Economic outlook stayed optimistic despite the government shutdown
- The plan to scale down LSAP remained unchanged - still awaiting “more evidence that progress will be sustained”

Market expectations of the Fed continuing its \$85 billion monthly purchases were confirmed with today's FOMC announcement. The Fed's newly released statement did not contain any changes to the current monthly pace of the large scale asset purchases (LSAP). Subsequently, there were no changes to the forward guidance as well.

Today's announcement took a very balanced stance and, while giving in to the dovish market expectations to keep monthly purchases unchanged, it contained slight hawkish undertones of continued optimism regarding the overall economic outlook. The statement did not reflect any negativity on third and fourth quarter growth prospects in connection with the recent government shutdown and congressional brinkmanship.

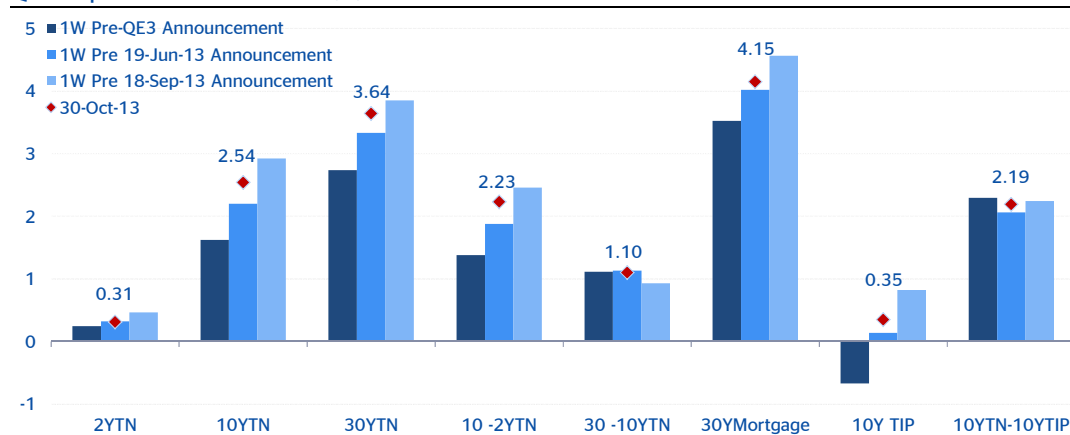
Voting against the action was Esther L. George, who remained concerned with increased risks of financial and economic imbalances due to the ongoing highly accommodative monetary policy.

Statement Overview

The FOMC economic outlook remained optimistic as the few minor changes in the outlook did not convey any new signs of concern. The changes addressed 1) the slow pace of the economic activity, stating that the economy “continued to expand at a moderate pace;” 2) labor market conditions as having “shown some further improvement;” and 3) a slight concern over the housing market, stating that “the recovery in the housing sector slowed somewhat in recent months.”

Chart 1

QE3 Impact on Interest Rates (%)



Source: Federal Reserve & BBVA Research

Contrary to the usual pattern, the most important part of today's Fed statement was the part that was kept untouched since first introduced at the September 17-18th meeting. Today's announcement re-emphasized that the plan to scale down monthly pace of LSAP is unchanged, reiterating that "the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases."

The FOMC remained concerned over low inflation rates, restating that it "recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance." The delayed September CPI estimates, released today, indicated that both headline and core CPI measures of inflation remain low, with headline CPI year over year inflation rate at 1.2% and core CPI at 1.7%. PCE inflation measures are also below the 2% mark.

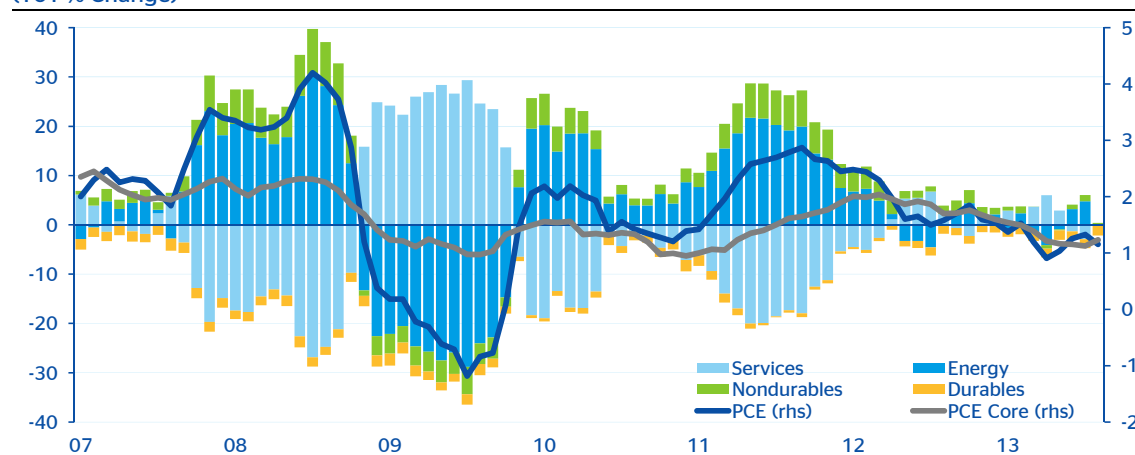
Bonds and Equities

Market reaction to Fed's today's communication was subdued. Long term treasury yields, which reached a 2 year high on September 17th due to the taper expectations, were on the decline and closed at 2.54% for the 10-Year Treasury yield. The expectation that Fed stimulus will remain unchanged also likely contributed to yesterday's record high in the S&P 500 which closed today at 1,763.31, a minor decline of 0.49%.

Bottom Line: FOMC will stay patient for stronger economic data before re-visiting taper-talk

The FOMC statement was balanced and carefully crafted not to communicate either dovish or hawkish expectations to the public and the markets. The Committee once again confirmed that the monthly pace of LSAP will remain data driven. December announcement to scale down the pace of asset purchases remains contingent upon strong revision of September employment indicators as well as sustainable economic and labor market progress in October.

Chart 2
PCE Chain Price Index
(YoY % Change)



Source: BEA & BBVA Research

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