

U.S. Fed Flash

Fedwatch: FOMC Statement October 23-24

- **Committee members maintain current policies: QE3, Operation Twist, and low interest rates through mid-2015**
- **Meeting minutes will likely allude to more significant changes in the December meeting as Operation Twist is scheduled to come to a close**

No significant announcements were expected to come out of today's FOMC statement, with the committee somewhat in limbo after September's QE3 and the presidential election being only weeks away. After the Fed decided to move forward with additional quantitative easing and an extension of the policy guidance during the meeting last month, markets had no need to fret over whether monetary policy would be adjusted. In today's statement, FOMC members reaffirmed their commitment to purchase \$40bn per month worth of additional mortgage-backed securities on an open-ended basis, while also maintaining Operation Twist as scheduled through the end of the year. September's statement noted that the FOMC did not believe economic growth would be strong enough without further policy accommodation. However, today's statement mentioned the need for "sufficient policy accommodation," which likely plays on the open-ended aspect of the size, pace, and composition of QE3. The committee also decided to maintain its current policy guidance, anticipating "that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015." As in the previous meeting, Jeffrey Lacker of the Federal Reserve Bank of Richmond was the only FOMC member to vote against the action, arguing against both QE3 and the extended policy guidance.

In regards to the economic outlook, committee members maintained their view on economic activity expanding at a "moderate pace" along with stable inflation expectations. Despite the significant drop in the unemployment rate in September, there was no mention of improving labor market conditions in the statement. However, it is likely that the meeting minutes will provide more details on this discussion and the immediate assessment of QE3. With the election just a few weeks away, the committee most likely discussed how to improve the effectiveness of such accommodation under the different political scenarios and the likelihood of a fiscal cliff compromise in Congress. With Operation Twist set to end in December, we expect that the last FOMC meeting of the year will provide more details on the Fed's planned course of action for monetary policy accommodation.

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