

# U.S. Fed Flash

## FOMC Statement: April 29<sup>th</sup> – 30<sup>th</sup>

### Calm Prevail on Surface – Minutes will Reveal Behind-the-Scenes Discussion

- **Monthly pace of asset purchases tapered to \$45bn**
- **Forward guidance left untouched bringing back unanimous FOMC vote**
- **Two incoming Governors will likely be in place to vote in June, another one leaving**

Following its own preset tapering path, the FOMC announced another \$10bn reduction to the monthly pace of Large Scale Asset Purchases. Accordingly, the Fed will add to its balance sheet \$45bn per month in May and June, spread to \$20bn in mortgage-backed securities and \$25bn of longer-term Treasury securities. While the pace of tapering remains data driven, the soft economic recovery reflected in the 0.1% annualized growth rate of 1Q14 GDP was not considered a hurdle.

The Committee maintained its view that the economic slowdown in the first quarter had been driven by the cold winter and thus was temporary, with the primary impact on investment expenditures. The FOMC stated that “business fixed investment edged down.” At the same time the statement reflected a positive outlook for the second quarter growth highlighting that “growth in economic activity has picked up recently,” and “household spending appears to be rising more quickly.”

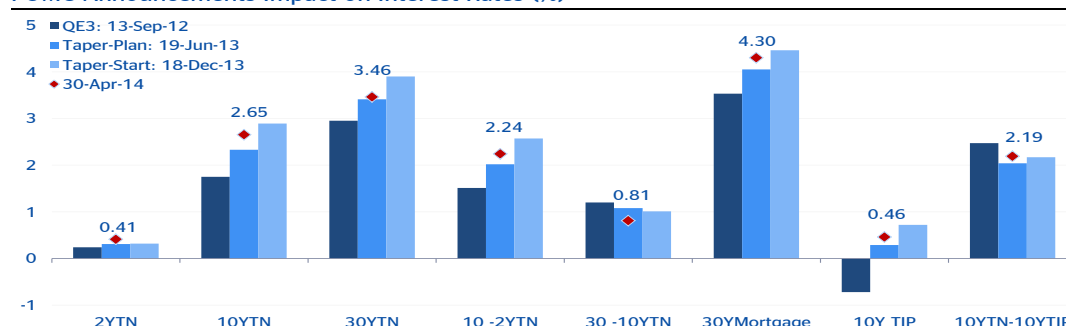
Calm prevailed in the bond market, since the FOMC statement did not introduce any new touches to the forward guidance, maintaining the modifications that were put in place in March. However, both S&P500 and Dow Jones gained 0.3% closing at 1883.91 and 16,580.84, respectively. The market expectations continue to be driven by the strong FOMC move in March, framed with a switch from quantitative thresholds to qualitative guidance and coupled with emerging steps to anchor expectations for the exit strategy.

The meeting minutes are expected to reveal the Committee’s further discussion on enhancing the effectiveness of forward guidance and other forms of communication regarding the trajectory of the federal funds rate. The current state of forward guidance seemed to satisfy all the FOMC voters, including previous dissenter Kocherlakota, pulling together a unanimous vote. Meanwhile the relevance of April meeting’s discussions to the future monetary policy course is questionable, with two FOMC voting members leaving and another two new members coming in for the next June meeting. Thus, changes to the June Summary of Economic Projections should be rightfully anticipated.

The April FOMC meeting was the last one for the centrist voter Governor Stein, who will return to academia. Another centrist voter, Pianalto, Cleveland FRB, will be succeeded in June by Mester, who will likely bring more hawkish undertone to her voting and the economic projections. Mester has already been a regular FOMC attender in her current role of chief policy advisor to the hawkish Plosser, Philadelphia FRB. At the same time, the vice-chair nominee Fischer and Governor nominee Brainard, as well as re-nominated Governor Powell, were cleared yesterday by the Senate Banking Committee, while yet to be voted for the final confirmation by the Senate.

The future course of policy firming remains data dependent and we expect the FOMC to introduce further modifications to the forward guidance throughout the normalization process. We maintain our expectations of QE3 ending in 4Q14 and the first rate hike in mid-2015.

Chart 1  
FOMC Announcements Impact on Interest Rates (%)



Source: Federal Reserve & BBVA Research

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