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Market Overview

Update

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- **No negative**
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No negative:

The Federal Open Market Committee (FOMC) meets today with its announcement due at 19:00 this evening at the same time as updated economic projections are published. This will be followed by Chair Jerome Powell's post meeting press conference at 19.30. We do not expect the FOMC to announce a change to the Federal funds target rate range which resides at 0.00-0.25% following the aggressive easing action taken already this year, in the face of the enormous coronavirus headwinds. Since the last FOMC there has been much speculation over whether the Fed might move rates into negative territory, with the Federal funds curve having priced in a risk of this happening. However, amidst all this speculation, Fed Chair Powell has forcefully indicated that negative rates are not on the table at this time. We would expect this message to be repeated this evening.

All about guidance:

The focus ahead of today's meeting is what, if any, further action or signalling the Fed chooses to deploy. As Chair Powell spoke about his current reservations over introducing negative rates he shifted the focus to forward guidance as a further policy tool the Committee could implement. The April meeting minutes highlighted that, while participants agreed that the current stance of monetary policy remained appropriate, they noted that the Fed could "at upcoming meetings, further clarify its intentions with respect to its future monetary policy decisions". When and how it would choose to do this remains uncertain, with a number of alternatives/complementary proposals having been discussed. In April, the FOMC discussed the idea of "more explicit" forward guidance which could be either outcome based or it could be date-based. The latter would indicate that the target range could be raised only after a specified amount of time had elapsed. The minutes also indicated some debate took place over whether clarity needed to be added to the Fed's QE buying amidst debate over whether "securities purchases could be used in the future to keep longer-term yields low" in a yield curve control style initiative.

Dot plots & verbal cues:

Ahead of the introduction of more explicit forward guidance, the Fed might prefer to lean upon its updated 'dot plot' and verbal cues to guide markets on rates. Furthermore it can afford to do so with market expectations for the Federal funds rate so flat over the coming years. The last 'dot plot' view of the appropriate path for the Federal funds rate was published in December, since the scheduled March meeting was cancelled. As such the world depicted in the new economic forecasts and 'dot plot' will be completely unrecognisable. It is reasonable to expect that in the near term the publication of a set of forecasts which show little to no expectation of rising rates over the coming years would be enough to reinforce market expectations of low rates for a long time.

Wait and see?

Finally the FOMC could also feasibly argue that it is waiting to see the impact of its current actions unfold, with some arms of this response, particularly the main street lending programme, only now getting underway. The Fed will also be keen to continue to eye the impact of administration and state level actions which also look set to be added to over the months ahead. Indeed it may stress that further fiscal stimulus is essential. If the Fed spends the next few weeks assessing the support this provides, eyeing the evolution of the virus as the restrictions are eased, monitoring work on the vaccine and or/treatments and of course the economic data, then by the 31 July and 18 September meetings it should have something of a clearer picture of what further communication clarifications are needed and what form they should take.