

Global Economy

Fed FOMC - Enhanced guidance on asset purchases

The first post-election FOMC meeting left federal fund rate and asset purchases pace unchanged. Although economic projections turned more positive in anticipation for vaccines and fiscal stimulus, the Committee is committed to foster accommodative financial conditions and use the full set of tools to support the U.S. economy in challenging time. Projections suggest no rate hike until end-2023. Asset purchases are guided to continue until further progress toward employment and inflation goals are achieved.

- Leave monetary policy measures unchanged**, which was in line with market expectation. Federal funds rate would stay at 0-0.25%. Asset purchases would maintain the same pace and composition at US\$120bn per month, including US\$80bn Treasury securities and US\$40bn agency mortgage-backed securities. These asset purchases, totaling over US\$1.4tn (or >6.5% of the US GDP) in 2021E, will continue to support the flow of credit to households and businesses.
- Enhanced forward guidance on asset purchases, which was the focus of this meeting.** The Nov FOMC statement indicated that asset purchases will continue “over coming months”. In the Dec FOMC statement, the Committee implemented qualitative outcome-based guidance, which is to “continue to” purchase Treasury securities and agency MBS “until substantial further progress has been made towards the Committee’s maximum employment and price stability goals”. Linking this guidance to forecast data, we expect asset purchases will last at least till end-2021.
- More optimistic about economic outlook.** Market participants lifted economic projections. Median projection of the US GDP growth was -2.4%/4.2%/3.2% in 2020/21/22E, up 1.3/0.2/0.2ppt, respectively, compared to Sep projections. They also expected tighter employment and firming PCE inflation in both near and medium term. Although the resurgence of COVID-19 cases since Nov weighed on recent economic figures, promising news about vaccines and encouraging expectation about fiscal stimulus likely provide insurance against future risks.
- Future path for fed funds rate.** According to Fed’s dot plot, anticipated path for federal funds rate was little changed from that in the Sep meeting. The majority of participants projected no rate hike at least until the end of 2023, although one more member anticipated an increase in 2023 than Sep projections.

Summary of Economic Projections

Indicators (Median, %)	2020	2021	2022	2023	Longer run
Change in real GDP	-2.4	4.2	3.2	2.4	1.8
Sep projection	-3.7	4.0	3.0	2.5	1.9
Unemployment rate	6.7	5.0	4.2	3.7	4.1
Sep projection	7.6	5.5	4.6	4.0	4.1
PCE inflation	1.2	1.8	1.9	2.0	2.0
Sep projection	1.2	1.7	1.8	2.0	2.0
Core PCE inflation	1.4	1.8	1.9	2.0	-
Sep projection	1.5	1.7	1.8	2.0	-

Source: Federal Reserve Board, CMBIS

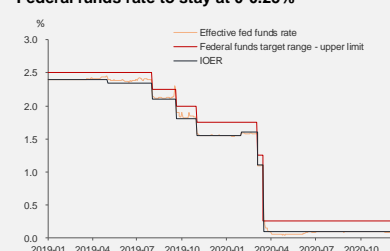
Ding Wenjie, PhD

(852) 3900 0856 /

(86) 755 2367 5597

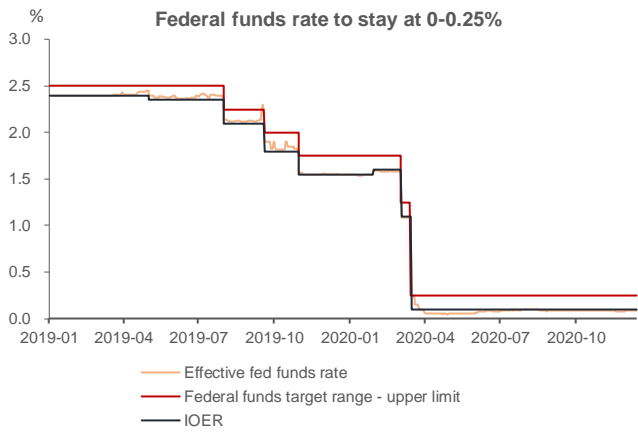
dingwenjie@cmbi.com.hk

Federal funds rate to stay at 0-0.25%



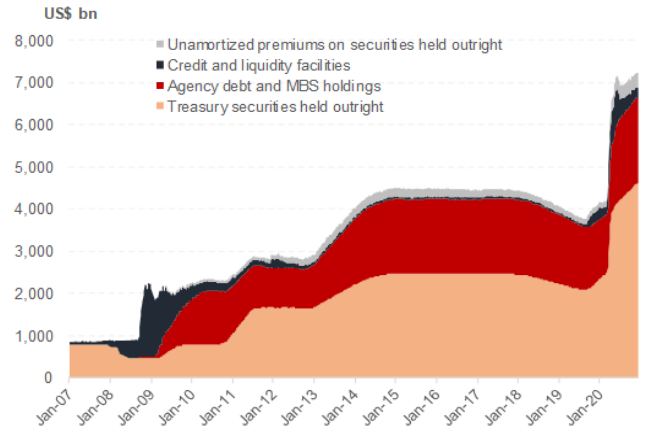
Source: FRED, CMBIS

Figure 1: Policy rates unchanged



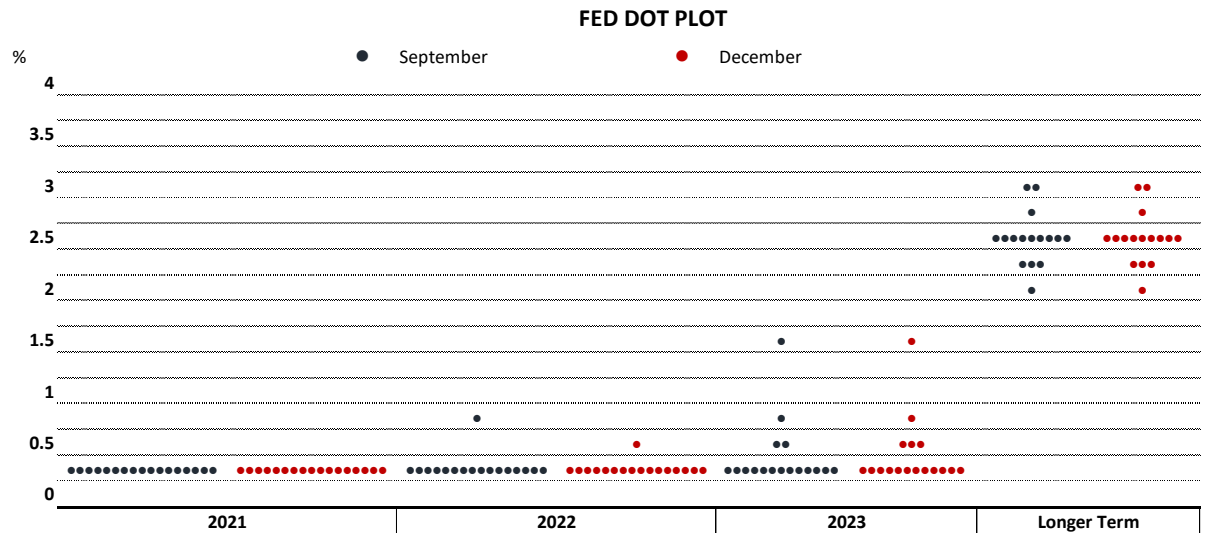
Source: FRED, CMBIS

Figure 2: Fed's balance sheet increased moderately over the intermeeting period to US\$7.24tn



Source: NBS, Wind, CMBIS

Figure 3: Dot plot of median projections of federal funds rate



Source: Fed, CMBIS

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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