

January FOMC meeting: Adopting a rather cautious tone with all options open

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- As expected, the Federal Reserve kept the target range for the fed funds rate unchanged at 25-50bp at its January 26-27 meeting. According to the post-meeting statement, the FOMC is closely monitoring global economic and financial developments and assessing their implications, leaving out December's formulation that described risks as being broadly balanced. Furthermore, the FOMC did not reiterate that "it is reasonably confident that inflation will rise over the medium term to its 2% objective", showing increased worries over on the US inflation outlook. Adding to this, in his speech ahead of the January FOMC meeting, Fed's Bullard emphasized the Central Bank's concerns about falling market inflation expectations.
- As far as the US economic outlook is concerned, the Committee downgraded its growth assessment, highlighting that economic activity decelerated towards the end of 2015 versus saying that growth was solid a month ago. According to the statement, household expenditures and business investment have increased at moderate rates in recent months, while the housing sector and the labor market have improved further. Additionally, net trade has been soft and inventory accumulation has slackened.
- Soon after the FOMC January statement release, expectations for an interest rate hike in the forthcoming March monetary policy meeting were largely scaled back. More specifically, the implied probability of an interest rate hike in March currently stands around 23%, down from 51% about a month ago.
- Given that the Fed kept all options open by not communicating its future monetary policy intentions, we believe that a further deterioration in global economic and financial developments could prompt the FOMC to stand pat at the upcoming meeting scheduled for March 15-16, while an improvement in the US economic and inflation data, coupled with a stabilization of financial markets, could open the door for a second interest rate hike in March.

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