Chairman Powell January 30, 2019, Press Conference

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2019 begins the Era of Powell Transparency. In his first of eight "live" FOMC meeting press conferences this year, he stated that the FOMC is "*committed to clearly explaining what we are doing and why we are doing it, both regarding the path of rates and also regarding management of the balance sheet. We believe that this transparency is how we can best contribute to macroeconomic stability*".

In Chairman Powell's Press Conference Opening Remarks[1], he used the word "patient" five times regarding rate hikes going forward after the FOMC's decision to hold the rates unchanged. The following summarizes the main points of his press conference's opening remarks, which were generally viewed as more "dovish" than expected by the market.

Positive Economic Conditions

- The overarching goal is to sustain the economic expansion with a strong job market and stable prices.
- U.S. economy is in a good place, and they expect that the American economy will grow at a solid pace in 2019, although it is likely to be slower than the very strong pace of 2018.
- The jobs' picture continues to be strong, with the unemployment rate near historic lows and stronger wage gains.
- Inflation remains near our 2 percent goal.
- There is not a major shift in the baseline outlook for the economy, but the cross-currents suggest the risk of a less-favorable outlook.

Cross-Current Observations

- Growth has slowed in some major foreign economies, particularly China and Europe.
- There are elevated uncertainties around several unresolved government policy issues: Brexit, ongoing trade negotiations, and the effects from the partial government shutdown in the United States.
- Financial conditions tightened considerably late in 2018 and remained less supportive of growth than they were earlier in 2018.
- Some surveys of business and consumer sentiment have moved lower, giving reason for caution.

[1] https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190130.pdf

Policy Views

- FOMC's current policy stance is appropriate at this time.
- Monetary policies are data dependent - as economic conditions and the outlook evolve, the Committee takes new information into account in setting policies.
- By balancing current conditions against cross-current observations, common sense risk management suggests to patiently await greater clarity.
- Assessment of the cumulative effects of global economic and financial developments and their implications for the economic outlook over the last several months warrant a patient, wait-and-see approach regarding future policy changes.
- The traditional case for rate increases is to protect the economy from risks that arise when rates are too low for too long, particularly the risk of too-high inflation – inflation risk appears to have diminished; risks of financial imbalances have receded; and financial risk appetite has moved lower.
- Under normal economic conditions, the federal funds rate is the active monetary policy tool and balance sheet is not, even though occasional changes could be warranted.
- In conditions where federal funds rate policy is an insufficient tool, FOMC would be prepared to use its full range of tools, including balance sheet policy.

Balance Sheet Normalization[2]

- After allowing for currency in circulation, the ultimate size of the Fed's balance sheet will be driven principally by financial institutions' demand for reserves plus a buffer so that fluctuations in reserve demand do not require frequent sizable market interventions.
- The reserve demand level is quite uncertain, but this demand in the post-crisis environment is far larger than before.
- Higher reserve holdings are an important part of the stronger liquidity position that financial institutions must now hold, and this implicates the balance sheet normalization will be completed sooner.
- The Committee is now evaluating the appropriate timing for the end of balance sheet runoff and will be finalizing these plans at upcoming meetings.

[2] https://www.federalreserve.gov/newsevents/pressreleases/monetary20170614c.htm

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The Bottom Line:

FOMC is done raising rates for now and suggests that the Committee is not in a rush to raise rates. By the end of March, we will have more clarity regarding the U.S.-China trade dispute/market reactions and the outcome from a hard, soft or delayed Brexit. With these and more U.S. economic data released by then, which would reflect the impact from the partial government shutdown, the FOMC will be more informed, and as such, we do not expect another rate hike until June or later this year.

Furthermore, the Committee recognized that the post Global Financial Crisis world sets conditions that require a larger Fed balance sheet, and Chairman Powell stated that the end of the balance sheet normalization process will be completed sooner than later. This is also constructive for the market from a financial condition standpoint.

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