

DAILY GLOBAL
COMMENTARY

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Today's FOMC Meeting Statement – The Fed Defines “Autumn”

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We suppose the biggest news from today's FOMC meeting statement is that it put a time (sort of) certain on the end of its Treasury coupon buying binge – October. In the June 24 policy statement, the FOMC said that the Treasury coupon purchase program would wrap-up in the “autumn.” In effect, the Fed is stretching out the “weaning” period before it makes the market fend completely for itself in finding buyers for Treasury coupons in as much as the current pace of Fed purchases would have exhausted its allotment prior to October. One might argue that the longer the Fed keeps the buying program in place, the more latitude it might have in increasing the size of the program. Along with the consensus view (did you expect anything different from the Fed?), the FOMC is a bit more optimistic about the near-term economic environment, changing its language to “economic activity is leveling out” from the June 24 meeting's “the pace of economic contraction is slowing.” But not to get too exuberant about the outlook, the FOMC commented that household spending would be constrained by “sluggish income growth,” in addition to the other constraining factors mentioned in the June 24 statement – “ongoing job losses, lower household wealth, and tight credit.” With the FOMC expecting “that inflation will remain subdued for some time” and anticipating that “economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period,” it is obvious that it has no intention of hiking the federal funds rate target between now and September 22-23, the next scheduled Committee meeting. Given our current view that the recovery is going to be subdued and uneven over the next several quarters, we do not expect any funds rate increases from the FOMC until June 2010, at the earliest.

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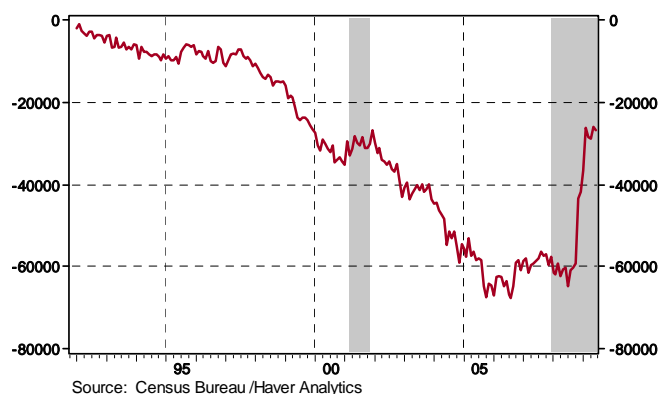
Trade Gap Widens, While Exports Also Advance

The trade deficit of the U.S. economy widened to \$27 billion in June from nearly \$26 billion in the prior month. A 7.0% increase in inflation-adjusted imports accounted for a widening of the trade gap; imports of non-petroleum items fell 1.2% in June. Overall imports of goods, after adjusting for inflation, rose 0.1%. Nominal imports of goods and services rose 2.3%, the first increase since July 2008.

Chart 1

Trade Balance: Goods and Services, BOP Basis

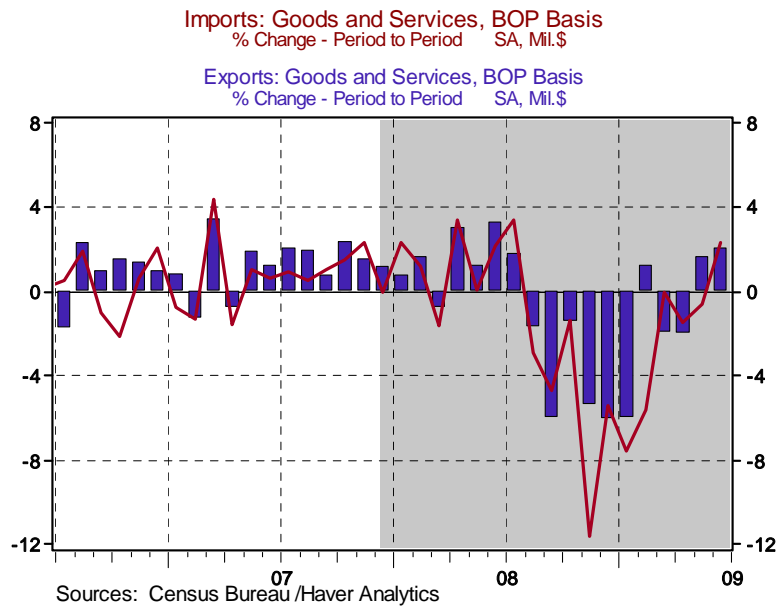
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Exports of goods and services increased 2.0% in June; exports have risen in three out of the last six months. Inflation-adjusted exports of goods increased 0.6% – also in three out of the six months ended June. The trade deficit of goods in real terms narrowed slightly to \$35.9 billion from \$36.3 billion in the prior month. The overall real trade deficit is likely to be smaller in the second quarter vs. the first quarter. The net impact of the drop in inventories and trade deficit will be confirmed after the inventories data are published on August 13.

Chart 2



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