

DAILY GLOBAL
COMMENTARY

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FOMC Policy Statement - Nature of Incoming Data Allow Fed to Wait and Watch

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The tone of the policy statement and details are largely close to expectations. The federal funds rate was left unchanged at 0%-0.25%. The statement reiterates Chairman Bernanke's opinion that an economic recovery is underway, representing a significant departure from the August policy statement which noted that "*economic activity is leveling out.*" The outlook for inflation remains favorable in the Fed's opinion due to "substantial slack" in the economy. In addition, the stability of longer-term inflation expectations was cited to rule out the case of an inflationary threat.


Chart 1



The last paragraph of the Fed policy statement is devoted to the outlook of monetary policy. The Fed left the stance unchanged to read as follows: "*The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.*" The translation here is that Fed is on hold for several months.

The plan to buy mortgage-backed securities of \$1.25 trillion is extended to the first quarter of 2010 from the end of 2009. The target amount has not been changed; to date, the Fed has bought

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two-thirds of the planned amount. The Fed's purchases of \$300 billion of Treasury securities will be completed by the end of October 2009. To date, the Fed has purchased 94% of the target.

In the effort to make Fed communication transparent and accessible, I humbly request that this long-winded sentence, which has appeared in the April, June, August, and September statements, be more succinct next time around:

“Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.”

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