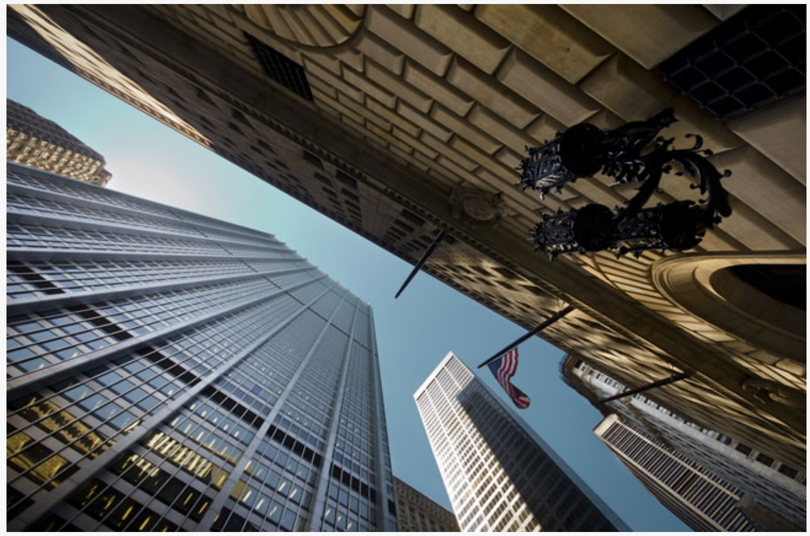
Eyes on Fed Statement, Signals on Rates

After a two-day meeting, investors are anticipating the Federal Reserve's conclusion and any hints regarding a possible shift in March.


Eyes on Fed Statement, Signals on Rates

TORONTO, CANADA, February 1, 2017 /EINPresswire.com/ -- The Federal Reserve is likely to keep interest rates steady in its first policy decision since President Donald Trump took office, as the US central bank anticipates greater clarity on his economic policies. The Fed will announce its decision by 19:00 GMT on Wednesday.

Investors will be looking forward to the latest statement from the Federal Open Market Committee, awaiting any signal that could point more clearly to a near-term rate hike.

For 2017, the Fed had suggested in December that there would be at least three rate increases. Traders, however, remained skeptical with the number. Markets are pricing in two rate hikes instead during the course of the year. According to Fed fund futures, odds that the first interest rate change may occur in June are at roughly 66%, and there is a 50% probability that the second interest hike may arrive at the December meeting.

> “The Federal Reserve the privately owned U.S. central bank definitely caused The Great Depression by contracting the amount of currency in circulation by one third from 1929 to 1933.”
>
> *Milton Friedman*

Needed clarity on fiscal policies

A number of Fed officials and experts have indicated that the US central bank will remain on hold until new fiscal policies from the Trump administration are implemented and affect the economy. Trump has pledged a large infrastructure spending program, tax cuts, a rollback of regulations and a renegotiation of trade agreements but has presented few details or a timeline for their implementation.

With the uncertainty surrounding the policies and potential for stimulus, the Fed cannot react until it identifies what to react to, said economists at Capital Economics.

Trump's vows on fiscal stimulus and tax reform could immediately incite higher inflation, as would a deed of imposing tariffs on Mexican imports. These may cause Fed policymakers to increase rates faster.

Nonetheless, with or without fiscal policies baked in to the US economy, the Fed's preferred inflation gauge, the core PCE price index, revealed the measure at 1.7% last month, coming close to the 2.0% goal.

But Morgan Stanley experts are still unconvinced that the US central bank will tighten until September "as it looks to allow inflation pressures to build and fiscal policy to take hold before moving again."

Focus on hints for a March move

Analysts believe there is barely any need to alter the FOMC's statement since there has been little change in the incoming data. On the other hand, they acknowledged that Fed officials had been mostly positive in recent remarks.

"To the extent an even more upbeat tone emerges in the statement we could see current market-derived probabilities for a March hike rise," the analysts stated.

Markets are pricing in the chances of tightening at March's meeting at nearly 25%.

Regarding the impact of Trump's fiscal policies, economists at ING forecast admitted that it remains rather cloudy.

They explained, "But even though the degree and speed of fiscal stimulus may disappoint financial markets, the reality is that we will see more fiscal stimulus under Trump than we would have seen under Clinton, and this should provide a further boost to growth, inflation and rate tightening expectations."

If today's FOMC statement sheds some light that the central bank could possibly move as soon as March, attention will build up on the upcoming policies announced by Trump and Fed Chair Janet Yellen's testimony to Congress on the economic projections and monetary policy on February 15.

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