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Flash Macro Update (01/30/2019)

The long-awaited FED's first FOMC meeting of the year has ended and the Bank decided on keeping the rates unchanged at 2.25-2.50%. The decision was universally expected. More important than the rates, the comments of FOMC members on a possible slowdown in balance sheet contraction were followed. Previously, there were comments in media outlets that FOMC members started to discuss a possible deceleration in the so-called quantitative tightening (QT). Apparently, a firm slowdown decision was not there yet, but there was a strong emphasis on more flexibility on that front.

In the short FOMC statement, FED reiterated its commitment that it will continue to unwind its balance sheet by forgoing reinvestment of up to US$50 bn in maturing securities each month. FED also added that it is prepared to make any adjustments in accordance with the developments. Financial markets wanted to hear a concrete evaluation about the balance sheet contraction speed and the emphasize on US$50 bn each month should have upset investors. However, there were two things that will be welcomed by market participants. First, FED dropped the statement regarding further gradual increases in FED funds rate. FED omitting that comment could be perceived as a slower rate hike cycle (if there is any) in the remainder of the year. And secondly, FED expressed that they can be flexible in their quantitative easing, which does not mean much for now, but at least gives the impression that US$50 bn each month will not be a must going forward.

At the press conference after FOMC (which will be held after every meeting starting from this year), FED Chair Powell emphasized that data-dependency of the FED will persist, and they will be flexible and patient going forward. Powell added that because of external factors and diminished inflationary pressures case for raising rates has weakened. In general, FED is right now concerned of three things that could affect US economy going forward: 1- Brexit, 2- Possible slowdown in China and 3- US government shutdown.

Overall, our assessment about the FOMC meeting outcome is positive, since FED signalled that it will not hike aggressively going forward and opened the door for a more flexible balance sheet contraction rather than an auto-pilot approach. It is worth noting that the next FOMC meeting will be held on March 19-20 and market players do not foresee a rate hike at that meeting but comments or actions regarding balance sheet contraction will be monitored carefully.

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