

Key Highlights:

- ◆ The U.S. FOMC keeps its benchmark rate in a target range of 1.5%-1.75% as expected.
- ◆ The “dot plot” of individual members’ future projections indicated, on balance, no hike in 2020.
- ◆ The FOMC Chairman Jerome Powell says policy likely will remain appropriate unless outlook shifts.
- ◆ The FOMC might consider buying coupon securities if needed.

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Fed Leaves Rates on Hold: The Federal Open Market Committee (FOMC) held interest rates steady following its two-day meeting and indicated that no action is likely next year amid persistently low inflation. After cutting rates three times this year, the FOMC kept the funds rate in a target range of 1.5%-1.75%. In its statement explaining the decision, the committee indicated that monetary policy is likely to stay where it is for an unspecified time, though officials will continue to monitor conditions as they develop. The decision to keep rates unchanged was unanimous, following several dissents in recent meetings.

“Dot plot” shows no 2020 hike now: “Dot plot” of individual members’ future projections indicated little chance of a cut or increase in 2020. December’s projections saw a decided downward shift in the dots, with just 4 of 17 members anticipating one quarter-point move up in 2020. There also was a general downward shift for 2021, with the chart pointing to at least one and possibly two increases. The median expectation for the funds rate is 1.6% in 2019 and 2020, down from 1.9% in the September estimate, and rising to 1.9% in 2021, compared with the previous estimate of 2.1%. The 2022 projection also came down to 2.1% from 2.4%, though the longer-run estimate remained at 2.5%.

GDP forecast: Pointing to sluggish global growth and persistent trade uncertainty as two threats to the U.S. economy, the Fed maintained its outlook for the U.S. economy this year, which it expects to grow at 2.2%, followed in consecutive years by 2%, 1.9% and 1.8% gains. Members did reduce their inflation expectations this year. They now see the core personal consumption expenditures gauge to register just 1.6% growth this year, down from the 1.8% projection in September. They kept their estimates consistent at 1.9% in 2020 and 2% for the following two years. Following November’s stronger-than-expected jobs report, the Fed also now anticipates the unemployment rate to be slightly lower for the year at 3.6% against 3.7% projected in September.

FOMC might consider buying coupon securities if needed: The FOMC Chairman Jerome Powell told a press conference following the decision that as long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate. The committee might consider widening reserves management-related Treasuries purchases to include short-term coupon-bearing securities, if necessary, to ease liquidity strains in money markets.

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For queries related to compliance of the report, please contact: -

Sudipto Datta, Compliance Officer

Stewart & Mackertich Wealth Management Ltd.

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414 /91 33 6634 5414

Email Id.: compliance@smifs.com / sudipta@smifs.com

Website: www.smifs.com