

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Remains Fully Committed to Supporting the Economy

ACCORDING TO THE FED

- ▶ The Committee decided to maintain the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects to maintain this target range until it is confident that the economy has weathered recent events.
- ▶ To support the flow of credit to households and businesses, the Fed will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities.
- ▶ The Fed is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.
- ▶ The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses.
- ▶ The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

COMMENTS

Jerome Powell and his colleagues have made multiple announcements since the start of the COVID-19 crisis outside of their scheduled meetings. They cut their key rates twice during extraordinary meetings on March 3 and 15, bringing the top of the target range down from 1.75% to 0.25%. They unveiled or set in motion an array of measures to support financial markets

and credit for businesses, households, and state and municipal governments.

Under the circumstances, no major new measures were expected to be announced after this first “normal” meeting since January. Today’s press release mainly allows Fed leaders to reiterate that they are prepared to take decisive action to limit the economic and financial fallout from the COVID-19 pandemic.

The Fed is aware that the economy is under a significant amount of strain right now. It will not release economic forecasts before its meeting scheduled for June, but Jerome Powell did refer to the extent of the current economic problems during the press conference. As of this morning, we know that U.S. real GDP was down 4.8% in the first quarter of 2020, and our own forecasts call for a decline of more than 30% in the second quarter. The Fed has already done a lot (its key rates are at their floor and its balance sheet grew from US\$4,200B at the end of February to over US\$6,500B last week). However, the measures in place are far from being exhausted, and some of the tools announced in recent weeks have yet to be implemented. Even if growth returns in the third quarter of 2020, we should expect the Fed to still be taking steps to support the recovery as much as possible. It is also keeping the door wide open for itself by no longer setting asset purchase targets, but rather focusing on the “amounts needed to support smooth market functioning.”

IMPLICATIONS

The Fed should continue its efforts to support the economy and markets. Key rates will remain at their floor for a long time to come, and asset purchases will continue until Fed leaders are “confident that the economy is well on the road to recovery.”

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
February			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
27	Bank of Korea	s.q.	1.25
March			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
April			
7	Reserve Bank of Australia	s.q.	0.25
9	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank		
May			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
June			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
7	Reserve Bank of Australia		
15	Bank of Canada*		
16	European Central Bank		
16	Bank of Korea		
22	Bank of Japan		
29	Federal Reserve		
August			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
11	Reserve Bank of New Zealand		
13	Bank of Mexico		
20	Bank of Norway		
27	Bank of Korea		
September			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Japan		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
October			
5	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
29	European Central Bank		
29	Bank of Japan		
November			
2	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
26	Bank of Korea		
26	Bank of Sweden		
30	Reserve Bank of Australia		
December			
7	Bank of Mexico		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.