MNI Fed Preview: July 2020

Meeting Dates: Tue-Wed, 28-29 July
Decision/Statement: Wed 29 July at 1400ET / 1900BST
Press Conference/Q&A: Wed 29 July at 1430ET / 1930BST

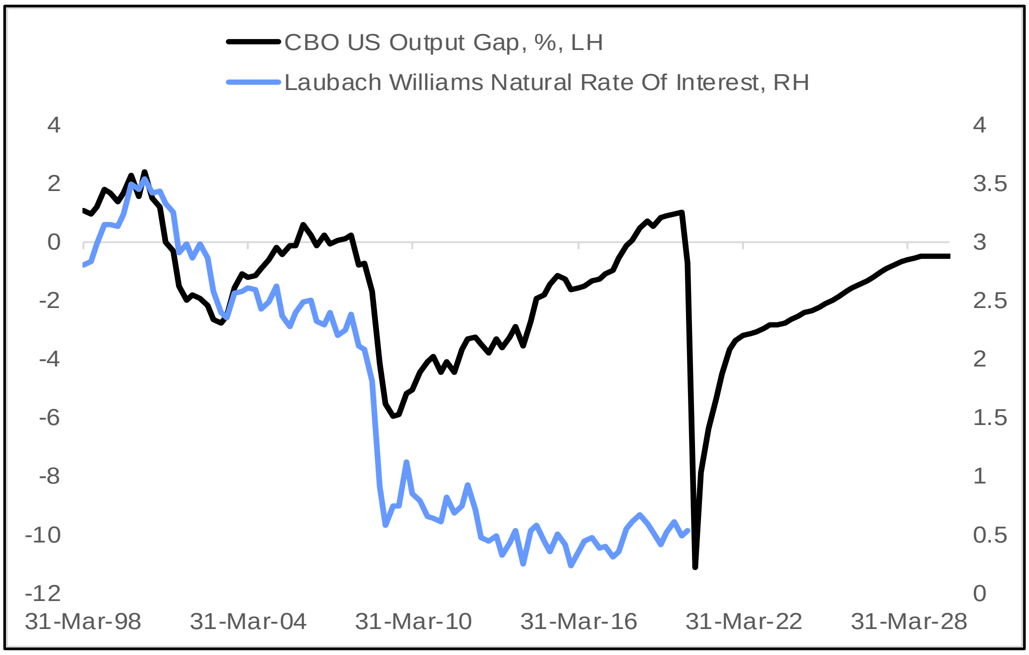
Minutes: Wed 19 August

Links (likely URLs based on previous meetings):

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200729a.htm
Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20200729.htm

Contents

Plenty Of Work Ahead: US Output Gap % Of GDP And Natural Rate Of Interest



Sources: Congressional Budget Office Projections, NYFed

Analyst Views – Fed Outlook

- **The sell-side consensus has subtly shifted since the June meeting** away from immediate and significant action on various policy fronts, to a more measured and incremental approach by the FOMC as it waits for further indications of the impact of COVID / potential 2nd wave on the real economy.
- **The June FOMC minutes spurred a significant change to many analysts' expectations**, as it suggested that there was little support on the Committee to adopt yield curve control in the near future.
- Additionally, comments by NYFed's Williams that the Fed's framework review would be completed 'later this year', and the June minutes suggesting further deliberation on key issues to be resolved, pointed to July being likely premature for significant shifts in policy, and even cast doubt on September as too early.
- **So while no action is expected at this meeting** (apart from a risk scenario for some sell-side analysts), there is plenty left on the table for the September and even November meetings.
- **This could involve a combination of announcements,** from the conclusion of the framework review, to formal forward guidance, to yield curve control, to an extension of the asset purchase maturity profile.
- **Almost all analysts expect strengthened forward guidance** based on inflation outcomes; a few (incl Goldman, UBS) see either dual-mandate guidance (infl and employment) or date- AND outcome-based.
- **See summary table below** - all 'outcome-based' fwd guidance expectations are inflation-based, unless noted. Several analysts gave an unclear view or no view at all about whether they expected YCC to be implemented, despite having had a view on it in the past.
- **Bolded entries below indicate changes in analyst view since June FOMC.**
- ***Full summary of analysts` notes, please see pages 10-17***

	Strengthened Forward Guidance	Yield Curve Control
ANZ	Yes, Outcome-Based, in September	Not likely soon
Barclays	Yes, Outcome-Based, in September	**No view [Previously said Yes, in Sep]**
Citi	Yes, Outcome-Based, in September	**No view [Previously said yes, alongside fwd guidance]**
Credit Suisse	Yes, Outcome-Based, in September or later	Yes, Australia-style, in September or later
Deutsche	**Yes, in September or later [Previously said Yes, in July or Sep]**	Yes
Goldman Sachs	**Yes, Outcome-Based on BOTH Inflation and Employment, in November [Previously said Sep]**	**Not soon [Previously said Yes, in Sep]**
HSBC	Yes, Outcome-Based (could include employment?) in July or September	No view
ING	**Yes, Outcome-Based, in Sep or Dec [Previously said No]**	No
JPMorgan	Yes, Outcome-Based, in September	No view [Previously said 'Not without change in fwd guidance'
Morgan Stanley	Yes, Outcome-Based, in September	
NatWest	Yes, Outcome-Based, in September or later	**No view [Previously said Yes, in September or December]**
Nomura	Yes, Outcome-Based, in September	**No view [Previously said Yes, in Sep]**
Nordea	Yes, Outcome-Based, in September or later	Yes, but later
Rabobank	Yes, Outcome-Based	Yes, 'down the road', potentially Q4
RBC	Yes, Outcome-Based, but later	
Societe Generale	Yes, Outcome-Based, "soon"	Yes, but contingent on market pricing hikes prematurely
TD	Yes, Outcome Based, in September	**Yes, but by end-2020 may be too early [Previously said Yes, by year-end]**
UBS	Yes, Outcome-Based AND Date-Based, in Sep	Yes, in September
Unicredit	Yes, in the fall	**"Significantly less likely following June minutes" [Previously: Yes, in fall]**
Wells Fargo	**Yes, in Sep or Nov [Previously said No]**	**Not in July (under consideration). [Previously: No]**
Wrightson ICAP	**Yes, Outcome-Based [Previously said no]**	Possible but not now

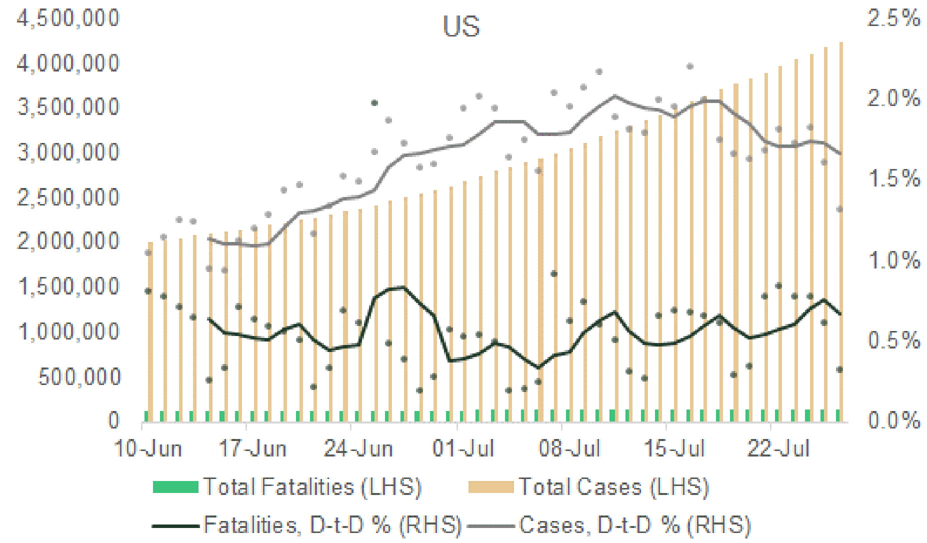
Correct to the best of MNI`s knowledge as of Jul 27

MNI POV (Point Of View): Setting The Stage For Action

By Tim Cooper

- **The July FOMC meeting may not result in immediate substantive policy action, but it will set the stage for some of the biggest and most anticipated Fed policy shifts in years.**
- Indeed, there are likely to be few changes to the statement in July (perhaps updating the paragraph on labour market conditions), and there will be no update to the Summary of Economic Projections. For now, the asset purchase program appears to be on autopilot until further notice.
- **Instead, Chair Powell's press conference will be closely watched** for commentary on how the FOMC currently sees the economic outlook, and updates on FOMC discussions on various policies that it is considering adopting, as well as for news on the policy framework review which is due to conclude this year.
- **Gov. Brainard's Jul 14 speech is the must-read document** of the inter-meeting period. In it, she noted that "a thick fog of uncertainty still surrounds us, and downside risks predominate" – signalling a very uncertain outlook, and one that supports a cautious approach to monetary policy.
- **This was a theme echoed by several of Brainard's FOMC colleagues** in inter-meeting communications, and is a prime reason why the July meeting is likely to be a wait-and-see affair.
- **Substantive action is now likely to be taken only later in the year** (most on the sell-side see September as the most likely) as the Fed awaits further signals of the impact on the real economy from rising COVID cases and changing consumer / business behaviour, and whether this confirms that the improvement in some macro data points in June/July will prove fleeting.
- Since the June FOMC, the number of COVID-19 cases has soared from 2mln to 4.3mln, and while growth is slowing, there is ample room for concern that the pandemic will continue to worsen for some time yet.

Short-Term COVID-19 Cases and Fatalities, Nominal and % Chg Day-toDay (5dma) Since June FOMC

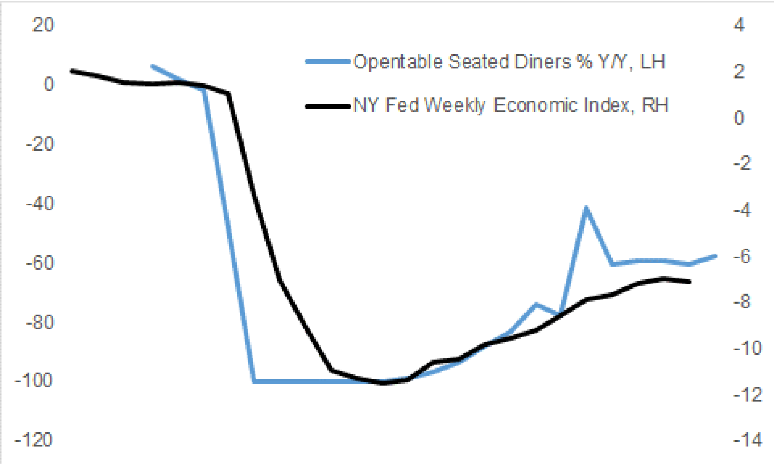


- The FOMC's unified line on the matter has been that the virus will drive the macroeconomic outlook, and this is borne out by a variety of high-frequency indicators that point to stalling in the US economy as cases rise.
- **Additionally, the June FOMC minutes cast cold water** on near-term adoption of policies that had been seen by some analysts as very likely to be implemented this year. On Yield Curve Control for example, "Nearly all participants indicated that they had many questions regarding the costs and benefits of such an approach…It was not clear that there would be a need for the Committee to reinforce its forward guidance with the adoption" of such a policy.
- **The minutes also appeared to indicate the FOMC was gravitating toward a more formal forward guidance** that ties tightening policy to achieving inflation outcomes, in a flexible way that allowed for temporary overshoots of the 2% target – as opposed to, say, a date-based policy that was tied to employment outcomes, or price-level targeting.
- **But while the Fed is ultimately likely to adopt outcome-based forward guidance tied to inflation**, more discussion rather than action looks likely at the July meeting given inter-meeting comments by FOMC

members, and the framework review may have to be concluded first. (Goldman for instance expects the framework review to be unveiled in September, with dual-mandate forward guidance introduced in Nov).

- As our Policy team notes, the Fed may take its time even more than the market expects - see **"Extra Fed Guidance May Be Delayed Till Year-End" and "Fed Dials Down Yield Curve Control Expectations".**

Signs Of Stalling? Sources: Opentable (via BBG), NYFed



- **Such a delay should not have a major impact on markets**, which are already pricing out Fed rate hikes through most of 2023, and with few signs of stress in financial markets (versus panic mode in March).
- **Indeed, the Fed may determine that it will get better bang for its buck waiting to implement forward guidance** only when it appears that the market is getting ahead of itself when it comes to Fed rate hike expectations. We're not yet at that point.
- **And more traditional policy is also on the table** before more novel alternatives are tried. Several analysts expect the Fed to soon transition from a 'market functioning' asset purchase program, to one that is more explicitly geared to monetary easing. This could involve buying longer-dated Tsys/MBS.
- **This doesn't even get into possible tweaks** to 13-3 lending programs, for instance making them more attractive in order to expand what is rather weak take-up so far. This is also unlikely soon.
- **But with unemployment remaining elevated, inflation low, economic output well below potential**, and a potential 2nd wave putting paid to V-shaped recovery narratives, further action seems inevitable, whether in September or further out – it is only their form and the timing that are in question.

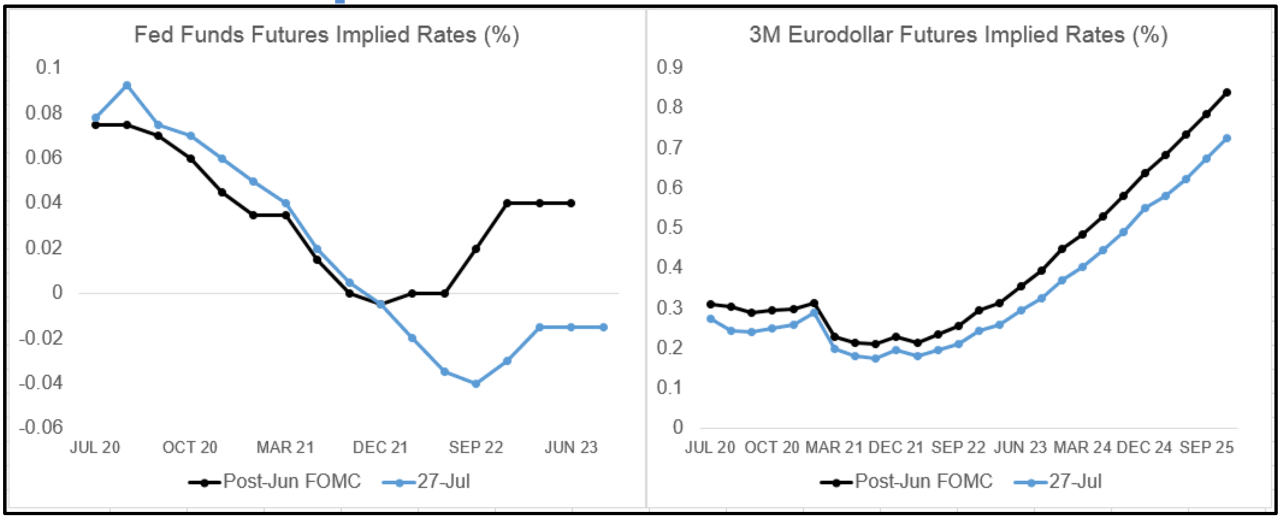
MNI Human Readable Algo Questions:

The questions that we have selected for this meeting are:

- Interest Rate Paid on Excess Reserves (IOER):
- Does statement alter: "The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."?
- Does statement alter: "over coming months the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain smooth market functioning."?
- Does statement say the Fed plans to shift to buying more longer term securities?

Our AlphaFlash product provides algos with a low latency feed from the lockup of data releases and policy meetings. For the Central Bank policy meetings we discuss with our algo clients a number of questions which are unambiguous, can be answered either numerically or with a yes or no, and which represent all of the expected tradable possibilities. The markets team have selected a subsection of questions we think could be most market moving and will publish the answer to all of these questions within a few seconds of the Fed statement being released. These questions are subject to change; clients will be informed of any changes via our Edge and Bullets services. **A comprehensive list of questions is available on the MNI Monitor (available via the website here:** https://www.marketnews.com/realdisplay?product=AFM

Market-Implied Rate Outlook



Source: Bloomberg, MNI Market News

- Since the last FOMC meeting, short term interest rate futures strips have shown modest flattening in implied rates, with longer-dated contracts rallying slightly more than near-dated ones. Indeed, longer-dated Fed Funds futures are trading in negative territory – perhaps more indicative of hedging activity etc rather than outright bets on negative policy rates, but clearly pointing to a 'lower for longer' Fed rate outlook. (*Updated Jul 27).*

mni Central Bank Watch - FED

27 July, 2020

MNI FED Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	0.1	2.3	↓	2.1	↓					-2.70
PCE Deflator	% y/y	0.5	1.8	↓	1.3	↓					-2.08
UoM 1-Yr Inflation Exp	% y/y	3.2	2.4	↑	2.5	↑					2.21
Inflation Swap 5y/5y	%	1.86	1.89	↓	1.99	↓					-1.19
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	43.1	50.1	↓	48.1	↓					-1.80
Industrial Production	% m/m	-11.25	-0.46	↓	-0.41	↓					-2.27
Factory Orders	% m/m	-13.0	-0.4	↓	0.1	↓					-1.77
Housing Starts	K	891	1617	↓	1340	↓					-2.00
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Corporate Spreads BBB/Baa	bps	2.02	1.45	↑	1.38	↑					1.23
Chicago Fed Financial Con	Index	-0.53	-0.57	↑	-0.76	↑					0.09
Consumer Credit Net Chg	$bn	-68.8	8.5	↓	13.8	↓					-2.33
New Home Sales	K	623	774	↓	706	↓					-1.42
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	-16.4	0.8	↓	0.5	↓					-4.07
Consumer Confidence	Index	86.6	132.6	↓	126.8	↓					-1.56
Nonfarm Payrolls Net Chg	K	2509	251	↑	261	↑					0.64
Average Hourly Earnings	% y/y	6.7	3.0	↑	3.3	↑					1.26
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	3216	2954	↑	3141	↑					0.86
US 10-Year Yield	%	0.58	1.15	↓	1.78	↓					-1.10
US Yield Curve (2s-10s)	bps	43.9	23.6	↑	16.4	↑					1.37
USD TWI	Index	90.82	92.70	↓	91.63	↓					-0.80

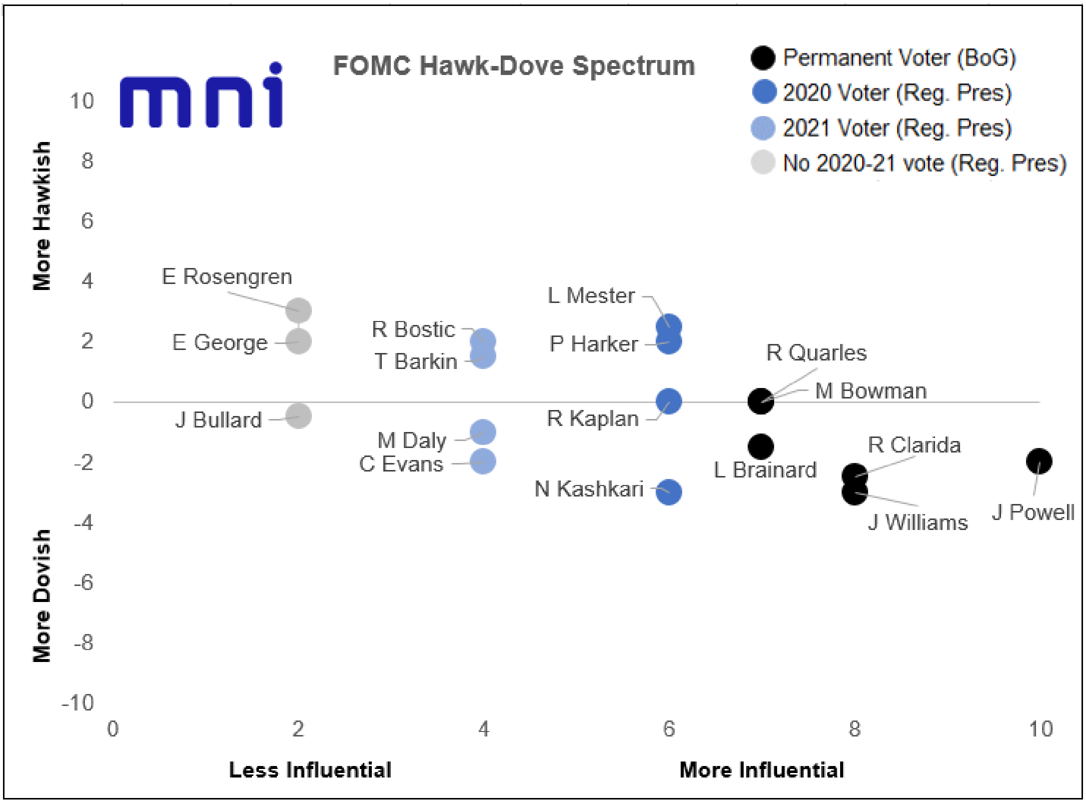
Source: MNI, Bloomberg

- Weak inflation figures and signs that the economic improvement may be stalling will be on the FOMC's mind, with our Central Bank Watch of economic indicators hardly giving the green light to the recovery. *(Updated Jul 27).*

Key Inter-Meeting FedSpeak – Jul 2020

The inter-meeting period has provided significantly more clarity over the path of policy ahead. More specifically, commentary has all but eliminated several possible policy choices, and indicated that some choices – while still likely to be adopted – will have to wait longer than had been expected. For example, following the June FOMC, prevailing consensus was that the Fed would adopt forward guidance and Yield Curve Control as soon as September, but the June meeting minutes . **Here are the prevailing FedSpeak themes since the June FOMC:**

- There is unanimity that policy will remain accommodative for an extended period.
- Several FOMC members stated they were comfortable with the current monetary policy settings and expressed a preference to wait for incoming data on both COVID and the real economy before providing any more accommodation – particularly on forward guidance.
- Many said they were concerned about a potential 2nd COVID wave weighing on activity, and said they were revising down their personal outlooks on the strength of the recovery.
- There appears to be unanimity that near-term economic risks tilt to the downside, and that inflation risks are heavily skewed to the disinflationary side / dismissing high-inflation concerns out of hand.
- There is a general preference to tying a more formal forward guidance policy to macroeconomic outcomes (rather than 'date-based'). In turn, there appears to be a strong preference to tie it to inflation outcomes rather than to employment, though some (eg Kaplan) are eyeing dual-mandate outcomes.
- Yield Curve Control does not appear to be a preferred option for many/most FOMC members at this point though it appears that most are keeping an open mind on the subject pending further discussion (***see Brainard's comments below – she gave arguably the key comments of the inter-meeting period in this speech***).



Our matrix uses the following methodology based on the MNI Markets Team`s subjective analysis.* ***Hawkish/Dovish scores*** *indicate MNI`s subjective assessment of each member`s stance on monetary policy. -10 implies member believes aggressive easing warranted; +10 is most hawkish, implies member believes aggressive tightening warranted. Scores around -2 to +2 considered relatively neutral. On ***Influence****, the x-axis runs from 0 ('least influential') to 10 ('most influential'). Voters in the current year receive a minimum score of 6; the Chair receives a 10 and Board of Governors members receive at least 7. Those who are not voters in the current year are limited to a score of 4; among them, those due to vote next year receive higher influence scores (rising towards end of current year), and vice-versa.*

Member	Role	Voter		Monetary Policy Commentary Since June FOMC
		'19	'20	
J Powell	BOG, Chair	**X**	**X**	**Re Rate Outlook:** "We're not thinking about raising rates. We're not even thinking about thinking about raising rates." *- Jun 10 FOMC press conference* **Re Economic Outlook:** "We have to be humble about our ability to move inflation up and particularly when unemployment is going to be above most estimates of the natural rate for - certainly above the median in our SEP – for well through the end of 2022." *- Jun 10 FOMC press conference* - "The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus. A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities." *– Jun 30 congressional testimony*
J Williams	NY Fed, V Chair	**X**	**X**	**Re Yield Curve Control:** "I view yield curve control as an interesting topic that we've obviously got to study, but it would be really probably best used in a situation where we found that our forward guidance and our other communications weren't being as effective as we would like. So, I think of it as a potential tool but not necessarily a tool for any specific situation. Really, I would think of forward guidance and obviously think of asset purchases as our two primary tools to provide extra stimulus when the economy needs it." *– Yahoo! Interview, Jul 16* **Re Framework Review:** "I hope that we'll be able to roll that out later this year and I do think it's an important part of explaining to the public." *– Yahoo! Interview, Jul 16* **Re Forward Guidance:** "Right now I actually think that the guidance we do have in there, which is maybe more kind of descriptive than formal forward guidance, is serving us well. So we do have some time to think about how we should evolve that guidance as we go forward." *– Yahoo! Interview, Jul 16* **Re Economic Outlook:** "My hope is that we'll continue to see positive signs of a gradual recovery over the second half of this year, into next year. But right now this is a critical inflection point." *– Yahoo! Interview, Jul 16* -"We are seeing some indications of a slowing in the pace of recovery in states that are currently experiencing large-scale outbreaks. This is a valuable reminder that the economy's fate is inextricably linked to the path of the virus." *-Jun 30 speech* -"I see disinflationary pressures, at least right now, to be the predominant ones." -Jul 16 online discussion
R Clarida	BOG	**X**	**X**	**Re Economic Outlook:** "Price stability requires that inflation expectations remain well anchored at our 2 percent objective, and I will place a high priority on advocating policies that will be directed at achieving not only maximum employment, but also well-anchored inflation expectations consistent with our 2 percent objective." *– Jun 16 speech* "We have a lot of accommodation in place. There is more that we can do. There is more that we will do if we need to." *-Jul 7 CNN interview*
L Brainard	BOG	**X**	**X**	"Looking ahead, it will be important for monetary policy to pivot from stabilization to accommodation." "We will be guided not only by the exigencies of the COVID crisis, but also by our evolving understanding of the key longer-run features of the economy, so as to avoid the premature withdrawal of necessary support." *-Jul 14 speech* **Re Average Inflation Targeting/Fwd Guidance:** "It is important that monetary policy supports inflation expectations that are consistent with inflation centered on 2 percent over time. And with inflation exhibiting low sensitivity to labor market tightness, policy should not pre emptively withdraw support based on a historically steeper Phillips curve that is not currently in evidence. Instead, policy should seek to achieve employment outcomes with the kind of breadth and depth that were only achieved late in the previous recovery." - "With the policy rate constrained by the effective lower bound, forward guidance constitutes a vital way to provide the necessary accommodation. For instance, research suggests that refraining from liftoff until inflation reaches 2 percent could lead to some modest temporary overshooting, which would help offset the previous underperformance." *-Jul 14 speech* **Re Yield Curve Control:** "Given the downside risks to the outlook, there may come a time when it is helpful to reinforce the credibility of forward guidance and lessen the burden on the balance sheet with the addition of targets on the short-to-medium end of the yield curve. Given the lack of familiarity with front-end yield curve targets in the United States, such an approach would likely come into focus only after additional analysis and discussion." *-Jul 14 speech* **Re Economic Outlook:** "The recent resurgence in COVID cases is a sober reminder that the pandemic remains the key driver of the economy's course. A thick fog of uncertainty still surrounds us, and downside risks predominate." *-Jul 14 speech*
R Quarles	BOG	**X**	**X**	**No monetary policy comments since June FOMC**
M Bowman	BOG	**X**	**X**	**No monetary policy comments since June FOMC**
P Harker	Phil Fed		**X**	**Re Average Inflation Targeting/Fwd Guidance**: "We've been saying for a long time that the 2% inflation goal is symmetric, which means we should overshoot it. We were having a difficult time doing that, like all developed economies…I'm supportive of the idea of letting inflation get above 2% before we take any action with respect to the fed funds rate." *– Jul 15 BBG TV interview* **Re Economic Outlook:** "If you think of a letter, it's definitely not a U, it's probably closer to a swoosh, written with a very shaky hand. We aren't going to see a smooth recovery until the virus is controlled and contained. *– Jul 15 Webinar*
R Kaplan	Dall. Fed		**X**	**Re Fwd Guidance:** "I want to turn over a few more cards and see how the economy unfolds before being prepared to say more about that." - [Dual Mandate objectives] "would always be my preference, and that means looking to both growth and inflation, and broadly the circumstances." *-Jul 7, MNI Interview*

Member	Role	Voter '19	Voter '20	Monetary Policy Commentary Since June FOMC
				- "I would actually rather decouple forward guidance from the framework review. I think the purpose of the framework review is not to deal with any one situation. It's to write a framework that we operate under for the next number of years, which is not necessarily dependent or driven by the current situation. I would rather give forward guidance based on our analysis of the economy as we see it today and how it's likely to unfold." *– Jul 16, WSJ Interview* **Re Yield Curve Control:** "Would not be an advocate... I would be concerned about some of the impacts that it could have on distorting the yield curve, distorting the pricing mechanisms of the debt markets." *-Jul 7, MNI Interview* **Re Economic Outlook:** "Looking at mobility data and having a wide range of conversations every day with businesses, it feels to me that growth is slowing from the pace we were rebounding the first month-and-a-half after re-opening...The next few weeks are very critical." - "The duration of this crisis is going to be maybe longer than some people expect," he said. "This is unlikely to be a situation that gets resolved quickly." *-Jul 7, MNI Interview* **"**While we've got this high of an unemployment rate and this much overcapacity, the overwhelming trend I believe is going to be disinflationary." *-Jul 14, CNBC Interview*
N Kashkari	Minn. Fed		**X**	**Re Economic Outlook:** "My base case scenario is that we will see a second wave of the virus across the US probably this fall. We're already seeing growth in many states. If there is a second wave, I would expect the unemployment rate to climb again." – Jun 19, Twitter account
L Mester	Clev. Fed		**X**	**Re Forward Guidance:** "The time may come when we want to use forward guidance, but right now I think everyone understands we want to keep interest rates low for a long time." *– Jul 7 CNBC interview* **Re Yield Curve Control**: "I'm open to using it as a reinforcement to forward guidance, but I'd like to see more study of that...I haven't come to a conclusion one way or the other yet on whether the benefits of it exceed the costs." *-Jun 17 online event* **Re Economic Outlook:** "I expect inflation to remain below our 2 percent goal for some time to come…In my view, very accommodative monetary policy will be needed to support the recovery and the return to the FOMC's goals of price stability and maximum employment over time. ... Almost all of my FOMC colleagues agree with me that it will be appropriate for the fed funds rate to remain at its current level through 2022, the end of our projection horizon, in support of the recovery." *– Jun 17 speech*
J Bullard	St. Louis Fed	**X**		**Re Forward Guidance:** "The situation we're in now is that the committee expects to stay low, the markets also expect us to stay low, and that it's probably not going to have inflationary consequences … Because of that there really isn't that much impetus to add additional forward guidance on top of that. We could do that but I don't think it would really change the situation." *Jul 1 FT interview* **Re Yield Curve Control:** "Right now there are more questions than answers about this and I don't really think this is a pending thing for the committee because we are already expecting rates to be low for quite a while." - "The US had yield curve control during World War II and after the war the exit from yield curve control was very difficult, so it kind of ended in tears. That is one of the main concerns about going in this direction." *– Jun 23 BBG interview* - "Don't see [YCC] as being terribly necessary at this point because expectations are already low as for the outlook for interest rates." *-Jul 14 presentation* **Re Economic Outlook**: "a base case in which the macroeconomy will continue to build on its momentum from May and June in the second half of 2020... the downside risk remains substantial" *– Jul 14 presentation*
C Evans	Chic. Fed	**X**		**Re Average Inflation Targeting/Fwd Guidance:** -"I think it's very important that we get inflation up to 2%; I'm looking for that to be a real problem over the next few years. Inflation above 2% would be quite appropriate for some period of time." *– Jul 16 webinar* **Re Yield Curve Control:** "I'm still grappling with that. I can see its potential use." *– Jul 16 webinar* **Re Economic Outlook:** " I am hard pressed to think of reasons why we would need to move away from accommodative monetary policy unless inflation was well above 2% for an extended period of time, and the economy was just very different from what we are seeing right now. I'm worried about the downside risks and I think that's how policy needs to be positioned." *– Jul 16 webinar*
E George	K.C. Fed	**X**		**Re Economic Outlook:** "Most important is the course of the virus itself. A renewed upsurge in infections and resumed social distancing, either mandatory or voluntary, is likely to be a persistent risk, at least until a vaccine has been developed or treatment options sufficiently improve." - "One thing to note is that determining the correct path for policy is likely to be even more difficult than usual given what I expect to be the continued volatility of the incoming data...Overall, it might be a while before the dust settles and we gain insight on whether further accommodation is necessary or not."*– Jun 25 speech*
E Rosengren	Bos. Fed	**X**		**Re Fwd Guidance/Yield Curve Control:** "I think that there will be a time when it is appropriate to provide more forward guidance. Exactly what the nature of that forward guidance is still something under discussion so I do expect to have a more concrete forward guidance, whether it's yield curve control or using a particular targeted unemployment rate or inflation rate." *– Jun 22, Yahoo! Interview* **Re Economic Outlook:** "My own forecast is that the unemployment rate will remain in double digits through the end of the year, which is somewhat higher than the median view of participants at the FOMC." *-Jun 19 speech* - "Some of the better economic data we've been getting has reflected the fact that those places are opening up, but they may not be opening up as safely as they need to. And if the result is that they have to impose new restrictions later in the year, that actually is going to slow down the economic recovery. And that is actually my baseline forecast, is that unfortunately we're unlikely to stop the community spread, and we'll be in a situation where the economy is growing more slowly than we might have hoped a few months ago." *– Jun 22, Yahoo! Interview*

Member	Role	Voter		Monetary Policy Commentary Since June FOMC
		'19	'20	
T Barkin	Rich. Fed			**Re Economic Outlook:** "People are cautious...Recovery is a confidence game. Consumers are 68% of the economy and their confidence matters a lot. I thought we were on a positive trajectory. The last couple weeks have at least shaken some of that." - [Economic data so far have] "come in as expected" *-Jul 13, MNI Interview* **Re Balance Sheet:** "We've obviously grown the balance sheet a lot. I'm not actually worried that the balance sheet is going to cause inflation." – Jul 7
R Bostic	Atl. Fed			**Re Economic Outlook:** "There is a bit more reticence in the economy. Business leaders we are talking to at the Atlanta Fed and families and consumers as well are sending signals that they are starting to get increasingly nervous as we approach the loss of -- maybe the ending of relief and a period of uncertainty about how things are going to be in just a couple of weeks from now. You have got that short-term uncertainty. There may be retrenchment in terms of a willingness to engage...Real-time data that we are getting today is really suggesting there may be a leveling off in terms of the level of business activity, in terms of the amount of jobs that are being returned to the economy." *-Jul 16 online event* -"I'm not expecting deflation. But what I would say is, inflation has been muted for the better part of 8 years now, and for a long time. Even as our policy stance was quite stimulative. So I'm expecting that we're going to see exactly the same thing moving forward, certainly for the next 6 to 12 months." *– Jun 25 online event*
M Daly	S.F. Fed			**Re Economic Outlook:** "We have this global decline in inflationary pressures that was going on before the crisis of Covid emerged. We were struggling to get inflation sustainably up to 2%, and this was happening across the globe...A little inflation for us would be a welcome thing, eventually, not something that I'm particularly worried about." *– Jul 7 online event* " We've certain seen some signs that are positive. We've seen people come back to work as we've reopened. We've seen retail sales rebound a little bit as people were allowed to go out and shop and spend. And so those are good signs. But I would hesitate to call this a recovery. Because ultimately the virus will determine the pace at which we can go." *– Jul 1 online event*

Analysts' Key Comments

All analysts expect no change in the Funds rate at the July FOMC, but opinion varies on changes to other policy tools. Key abbreviations: IOER = Interest On Excess Reserves; SEP = Summary of Economic Projections; YCC = Yield Curve Control; AIT = Average Inflation Targeting

ANZ: Policy Pivot For Fed And Looming Fiscal Cliff

- As a result of the pandemic's surge and the impending fiscal cliff, the outlook is looking dire, with an increasing number of FOMC officials becoming pessimistic.
- Expect Fed/Powell to express caution about recent economic trends given hits to activity in the short term.
- In July, to discuss the appropriate tools for conducting monetary policy and how to shift policy settings to be more accommodative for September and beyond.
- **Press Conference**: Powell to again suggest that further fiscal stimulus will be appropriate. Details of CARES 2 may be known by the meeting, but if not, Powell may stress the urgency of the situation given there is a sizable fiscal cliff looming.
- Powell may provide some insights, either through prepared remarks or in response to press questions, into expected FOMC policy settings
- **Fwd Guidance:** To be outcome-based; no hikes until 2% target exceeded for substantive period. Would likely implicitly involve a healthy labour market outcome.
- **YCC:** Adoption unlikely any time soon; much further down the track.
- **Balance Sheet:** From September meeting onward, Fed will explicitly state that its ongoing asset purchases will be aimed at achieving macroeconomic objectives rather than ensuring market efficacy.

Barclays: From Emergency Response To Promoting Accommodation

- No real change in policy guidance at this meeting; Fed to affirm in the statement and press conference that its current stance remains appropriate.
- Although the Fed is likely to upgrade its assessment of the incoming data in May and June, the rising number of COVID-19 cases is likely to keep the committee focused on downside risk, the potential scarring of labor markets, and elevated uncertainty.
- **Fwd Guidance:** Could come as early as Sep FOMC, though unsurprising if it came later.
- With the immediate liquidity crisis averted, the Fed is likely to turn its eyes toward the completion of framework review. Will shift in the direction of inflation averaging that opens the door to make-up strategies; likely outcome-based and inflation-contingent (in turn, likely on projected rather than actual outcomes).
- The message: policy during forthcoming expansion to be set with goal of engineering a modest overshoot of the 2% target.
- Given minimal take-up in credit and liquidity facilities, most of the future growth the balance sheet is likely to come from Tsy/MBS buys as part of outcome-based forward guidance. Expect $120bln/monthly purchase pace maintained through end-2021.

BMO: COVID Concerns And Framework Fixes

- The COVID curve turning back up will no doubt be a focus of discussion, posing a significant risk to the robustness of the economic recovery. Amid a doubled infection rate, look for the Fed to double down on Powell's "mission statement" ("we are strongly committed…") from the June FOMC.
- It's not clear when the Framework review will be completed (it wasn't as of June 10), and when any modifications to the current framework will be announced. These dates have already been pushed back this year because of the pandemic and, given the worrisome surge in new coronavirus cases since last month's meeting, we suspect any framework fixes will be announced in Sep at the earliest.
- But, here too, one can't rule out an announcement as early as next week. In the wake of the pandemic, policymakers have revealed an ability to act expeditiously.

Citi: Debating Forward Guidance

- Most interesting at this meeting is discussion around forward guidance. Messaging from Powell and in the statement emphasizing that the Fed remains committed to providing further accommodation.
- **Press conference:** Powell may remark on the better functioning in credit and other markets as a reason balance sheet expansion has slowed, but at same time highlight that the Fed stands ready to intervene more extensively should market conditions warrant.
- **Fwd Guidance:** Broad-based support on FOMC for formal outcome-based guidance. The interesting debate at this meeting, likely most evident in minutes released Aug 19, will be the exact form and wording of that guidance, likely delivered in Sep.
- Best guess: FOMC leans toward phrasing that indicates some comfort with overshooting 2% target – but does not explicitly guarantee an overshoot.
- More dovish: committing to overshoot for a period of time. More hawkish: simply stating hikes will not commence until inflation is on clear path to being at-target.
- Any fwd guidance likely to be consistent with far-forward pricing of likely first hike, which means market reaction will be muted.
- May also have unemployment component, but unemployment component, but choosing appropriate threshold difficult and possibly contentious given significant uncertainty over both the path of employment and labor force participation.

Commerzbank: “Phase 2” Of Monetary Policy In The Crisis

- Probably a little too early for an “official change” to forward guidance. But Fed to switch from acute crisis control to a different mode: to secure and accelerate the economic recovery.
- This “phase 2” to be based mainly on asset purchases.
- FOMC wants to wait until rising price pressures are actually reflected in the inflation figures.
- This should be made clear to the market by adapting fwd guidance language. While unlikely at this meeting, Powell could drop some hints in the post-meeting press conference.

Credit Suisse: Australian-Style YCC Coming By End-Year

- Powell to lay groundwork for possible policy changes at future meetings. Little urgency to change current policy stance. Esp w great uncertainty to growth path. FOMC to wait until September for next moves.
- **Fwd Guidance:** In framework review, expect an official change to AIT, which makes up for past misses.
- **YCC:** Powell likely to give more details on the Fed’s discussions on YCC. Although rates are already at historically low levels, a shift to YCC on M-T rates would be effective especially if financial conditions tighten unexpectedly.
- Fed is increasingly likely to implement something like Australian YCC by end-2021, with a target on 3- or 5-year yields and a stated time horizon (perhaps 18-24 months).

Deutsche: Setting The Stage For Later Announcements

- No meaningful policy announcements; to set stage for more consequential announcements on fwd guidance/balance sheet/policy review later this year (most likely Sep).
- Of interest at this meeting: any clues about how Fed can enhance or supplement fwd guidance+QE to achieve more monetary stimulus down the road.
- **Statement:** Only material revision in this meeting to be an upgrade to forward guidance for the policy rate.
- **Press conference:** To focus on latest assessment of the recovery, and progress report on policy review.
- Powell likely to preview discussions on policy strategies/tools.

Goldman Sachs: Shifting Policies, But Later

- No changes at this FOMC, and expectations for policy actions delayed by one meeting: framework review to be completed in Sep; forward guidance/asset purchase policies in November.
- Why Nov too? Would be unconventional to use Jackson Hole to present the framework review and presenting both the framework review and the policy changes at a single FOMC meeting would be too overwhelming. Would also help avoiding making a monetary policy change before November elections.

- Framework review to adopt ‘fuzzy version’ of AIT (effectively 2-2.5% inflation goal when economy is at full employment), short of price-level targeting.
- Also, ‘soft nod’ toward front-end YCC as addition to the toolkit, but unlikely to be used soon.
- Communications part of framework review could link econ/mon pol projections while keeping them anonymous to provide clarity about reaction functions; could modify dots (e.g. scenarios);
- **Statement:** No major changes; softened references to oil prices and improved financial conditions.
- **Fwd Guidance:** Outcome-based, delaying liftoff until both full employment and 2% inflation. This won’t be met until roughly 2025. Uncertainty about NAIRU and underlying inflation trend argues for using both sides of the dual mandate. (Bank of Canada now doing this.) Though absent in the June minutes.
- This would be more dovish guidance than last cycle but consistent w avg inflation targeting.
- **Balance Sheet:** Transition to more traditional asset purchase program, incl noting pace of purchases in the statement, guiding toward an expectation that tapering would begin about a year before liftoff, and describing its purpose as increasing accommodation to support the recovery.
- The latter implies targeting somewhat longer average maturity than buying across the curve.
- **YCC:** Not anytime soon. Would only have a large impact where mkt expectations were unrealistically hawkish. Most sensible form would cap Tsy rates out/somewhat short of expected rate liftoff date, but this was not among options presented at the June meeting – rather, the RBA’s 3-Yr cap was presented, which makes exit more complicated.
- **Other options include:** Faster rate of asset purchases, negative rates, using new credit facilities more aggressively (likely extended beyond September, could ease terms of loans / broaden eligibility). Though negative rates unlikely for foreseeable future.

HSBC: Forward Guidance Change Possible In July

- Key question is whether FOMC amplifies forward guidance. Likely in July, or September.
- **Fwd guidance:** Fed could express commitment to accommodative stance by saying will keep rates on hold as it pursues a full recovery in employment and a “sustained return of inflation” to the 2% target.
- “Sustained” would signal FOMC sees benefit in mild overshoot.
- Agreeing on a specific unemployment level in the current environment may be challenging.
- Changes to longer-run statement (again either in Jul or Sep) could work with other elements of fwd guidance to emphasize the pursuit of 2% inflation over time.
- One reason to wait until Sep would be to accumulate more info on COVID, fiscal policy, etc.

ING: Calm Before The Storm?

- The Fed has little need to alter its language or stance at this stage, particularly as we await the outcome of negotiations over another fiscal stimulus.
- **Statement:** Unchanged. No need to be more explicit with policy guidance.
- **Press conference:** Powell to express a similar view to his comment at last month’s testimony to Congress that “until the public is confident that the disease is contained, a full recovery is unlikely”. Pretty obviously, interest rates are not going anywhere for a very long time.
- **Fwd Guidance:** More likely in Sep or possibly even Dec to announce shift to targeting 2% inflation over a period of time – thereby tolerating bouts of above 2% inflation to make up for long periods of sub-target inflation. This would clearly imply looser monetary policy for longer.
- **YCC:** With the US 10Y Treasury yielding just 60bp and the 30Y a mere 1.25% there is no pressing need to do anything. If yields start to rise on economic optimism and the perception that inflation is rising the Fed is unlikely to stand meaningfully in the way. If due to demand/supply mismatch, then Fed may be far more willing to intervene.

JPMorgan: Setting Stage For Forward Guidance In September

- No changes to policy at this meeting. Presser likely more interesting than statement.
- Inching higher of effective Fed funds means IOER adjustment off the table.
- Possible that the Fed could issue a new Statement on Longer-Run Goals and Monetary Policy Strategy, though neither Fed officials nor media sources have said much on this topic.
- **Press conference:** Powell could discuss progress on the policy framework review.

- **Fwd Guidance:** This meeting to set stage for change at Sep meeting. Conclusion of framework review will be used to condition the next rate hike on the sustainable achievement of 2% inflation – average inflation targeting.
- **Balance Sheet:** Monthly purchase pace unlikely up for review at this meeting. Media reports suggest the duration of those purchases could be extended, though here too we would look for any change in the composition of purchases to be decided at Sep FOMC.

Lloyds: Set To Strengthen Forward Guidance

- Most likely further action is hardening forward guidance on the future path of policy, likely 'data dependent' (i.e. based on inflation). Other moves seem unlikely at this stage (YCC, negative rates).
- Fiscal policy may have significant impact on whether Fed needs to act. Possible Congress agrees to a temporary extension of unemployment payments in place of a full package at this stage.

Morgan Stanley: Wait For September

- No major changes at this meeting.
- Fiscal policy remains in active debate, and it is a distinct possibility that the FOMC will go into the July meeting without a clear sense of the size, scope, or composition of the next round of fiscal support.
- **Press conference:** Details of forward guidance / asset purchases / policy framework review discussions likely to emerge.
- **Fwd guidance:** Before the FOMC communicates a policy that seeks to run inflation above 2%, it will likely want to communicate the adoption of a new inflation targeting framework that includes a make-up strategy that would, in principle, call for such an overshoot.
- So change to policy framework at Sep FOMC, w stronger fwd guidance implemented at the same time.
- **Balance Sheet:** Potential for discussion of re-branding of the Fed's asset purchase program as aimed at providing policy accommodation. Could open door down the road to extending duration of purchases, but little rush here.

NatWest: Uncertainty Preventing FOMC From Providing More Clarity

- Meeting is more of a placeholder. Uncertainty prevents FOMC from providing more clarity on policy intentions. Key changes are coming, but not this month.
- **Statement:** Limited changes, overall dovish tilt intact. No new explicit fwd guidance references.
- **Press conference:** Powell's overriding theme will continue to be that the Fed will take whatever steps necessary, esp given COVID resurgence in various states. Likely to reiterate that the pandemic is the key driver of the economic course; recovery could face headwinds for some time.
- Powell could take a page out of Brainard's recent speech: "it will be important for monetary policy to pivot from stabilization to accommodation by supporting a full recovery in employment and returning inflation to its 2 percent objective on a sustained basis" and "forward guidance constitutes a vital way to provide the necessary accommodation".
- **Fwd Guidance:** FOMC could be ready to provide more clarity at September meeting, though could be delayed until later in the year. Ultimately: outcome-based, tied to some form of average inflation targeting (annc'd as part of monetary policy review).

Nomura: To Debate Accommodation Via Balance Sheet Expansion

- Few new policy developments. FOMC to use meeting to continue discussions on longer-run topics, setting up more consequential announcements for September. Thus focus will be on the July minutes in Aug.
- **Balance Sheet:** FOMC to debate ways to provide accommodation via balance sheet policies (per Brainard's speech). To acknowledge in Sep that ongoing purchases aimed at achieving objectives (rather than mkt functioning). At this FOMC, to debate merits of shifting purchases out the curve/faster pace.
- **Fwd Guidance:** Firmer agreement on average inflation targeting this fall, complementing stronger forward guidance at the September meeting: 2% inflation to be reached before beginning to consider removing accommodation.

Nordea: From Stabilization To Accommodation

- Focus on fwd guidance and how best to underpin the recovery. Still premature for any formal decisions.
- As Brainard put it in her recent (brilliant) speech, the focus will shift from stabilization to accommodation.
- **Press conference:** Powell will likely say that he is happy with recent key data surprises and that the low point is probably behind us. However, will most certainly also point out concerns related to some high-frequency data showing slowing improvement.
- Will likely stress how much unemployment benefits/household checks have helped the recovery. But will fall short of giving direct advice to Congress.
- Will likely dodge questions on 13-3 programs like he did during the Senate and House hearings in mid-June. If anything, would likely point out that they have provided a necessary credit backstop and therefore fulfilled their tasks of restoring market functioning.
- **Fwd Guidance:** One can question whether needed at this point, given communication, dot plot, and market pricing. But expectations may change when/if economy looks a bit better, leading bond yields higher/tightening financial conditions too soon for the Fed's taste. So fwd guidance an insurance policy.
- Outcome-based guidance linked to inflation is the most favoured.
- Likely to formally adopt AIT but July is premature, waiting for framework review to conclude.
- September more likely despite being the last meeting before the US elections (but still maybe too early).
- **YCC:** Still expect it to be implemented. QE was not embraced at first, but now a standard policy tool.
- Could be solution to not buying bonds at current rapid pace for next couple of years. But could still use QE to reduce term premiums/push investors out on the risk curve, while at the same time use YCC to lock-in the front of the curve.
- 'Doing more' to support recovery puts pressure on Fed to adopt YCC.

Rabobank: Fed Will Have To Resort To YCC Somewhere Down The Road

- FOMC is likely to debate providing more explicit forward guidance linked to inflation, and still has to work out a number of issues re YCC.
- **Fwd Guidance:** FOMC has preference for outcome-based guidance, with slight preference for tying to inflation rather than unemployment. And supporters see possibility of modest temporary overshooting.
- Dot plot could be made more specific by outcome based fwd guidance for 2023 and beyond.
- Infl overshoot guidance would fit well with the framework review, as Fed seems to be moving to a policy approach that allows inflation to exceed 2%.
- **YCC:** Resurgence in COVID, civil unrest, China tensions make it likely that Fed will have to resort to YCC somewhere down the road despite current hesitation (because it doesn't want to cut rates to -ve).
- More specifically, foresee economic contraction/substantial slowdown in Q4 which would force the Fed beyond forward guidance. Failure on fiscal front would speed up Fed's thinking process.

RBC: Outcome-Based Approach To Accommodation

- With Powell out there communicating the Fed's stance in real time, the July meeting is unlikely to provide anything groundbreaking.
- FOMC seems to be moving toward an outcome-based approach to accommodation. In other words, in coming months we expect the committee to detail how the economy would have to evolve in order for it to become comfortable adjusting policy.
- Perhaps Powell will provide some additional color on what this might look like at his press conference.

Scotiabank: Fed To Hit The Snooze Button

- Fed to hit snooze on formal policy deliberations until the Sep FOMC, by when they will have more evidence on the pace / durability of recovery.
- In the meantime, the Fed's best course of action likely involves walking the middle ground between continuing to implement existing programs and tweaking their features, but not going overboard until it has a stronger sense of the recovery's legs.
- None of Powell's language post-June FOMC suggests a Chair who is on the verge of springing major developments in terms of strengthened forward guidance or LSAP changes or yield caps or alternative targeting frameworks.

- Fed may roll out strategic review toward year-end, emphasising reliance on QE, policy rates, fwd guidance, possibly shorter-term yield curve targets. And more likely avg inflation targeting than price level targeting.

SEB: Too Early For Decisions On Future Policy Steps

- Expect similar to June, small changes to policy/statement.
- Future policy steps could include average inflation target, signalling acceptance for inflation overshoot, and yield curve control for 2 -3 year bond yields, but too early for decision yet.
- **Balance Sheet:** Likely to communicate purchases continuing “at least at the current pace”.

Societe Generale: Still About Forward Guidance And Balance Sheet

- With the econ outlook uncertain, FOMC expected to remain very accommodative for the foreseeable future. Rates on hold through mid-2023.
- In downside scenario, Fed may consider negative rates (after significant balance sheet expansion). In upside scenario, Fed could taper purchases earlier and more aggressively, w rates rising in late 2022.
- **Fwd Guidance:** At some point, perhaps soon, the Fed may adopt specific forward guidance language, with a tie to average inflation rates; in July, we see incremental strengthening in its language.
- **Balance Sheet:** While the Fed could increase its purchases, we are doubtful for now. Slowing of purchases to happen incrementally through 2021-22.
- **YCC:** No need currently – only if market prices in rate hikes prematurely. Discussion likely to continue well into 2021-22; would be focused on maturities to 2Yr. To the extent that forward guidance is successful in limiting the market’s early anticipation of rate hikes, YCC is less needed.

TD: Prep For Sep

- Don’t expect outcome-based guidance and avg inflation targeting to be announced until after the September meeting—we don't expect the review to be completed until then—but Powell to continue the process of prepping markets for changes at the press conference.
- **Statement:** No major changes, marking-to-market of econ conditions (i.e. payrolls gains).
- **Press conference:** Powell likely to caution against extrapolating from the strength in the data as the economy began to reopen. Will likely dovishly state "We are committed to using our full range of tools to support the economy in this challenging time."
- Keen to hear what Powell says about potential changes to forward guidance as well as the monetary policy framework review, which appear to be linked.
- **Fwd Guidance:** Jun minutes reinforced view that officials will suggest a minimum for inflation in the context of an avg inflation targeting framework, with the framework reflected in a new longer-run goals statement.
- We believe officials have already effectively adopted an AIT framework, such that they want inflation to rise above the 2% goal for a while to make up for past shortfalls. In turn, expect Fed to refrain from tightening until inflation is clearly above 2%, perhaps as high as 2.5%. One way to communicate that strategy would be by employing an "operational range" for inflation of 2-2.5%.
- **YCC:** Fed ultimately to reinforce more dovish fwd guidance with short-to-intermediate YCC (out 3Y?), but by end of 2020 may be too early (see Brainard’s speech).

UBS: Probably Nothing, But…

- Fed does not seem to have an urgency to change policy stance. A single shift to a coherent set of new policies most likely in September, but an incremental approach is possible.
- If we are wrong and they act in July, could commit to holding rates at zero until inflation expected to overshoot target / committing to continue asset purchases until "material progress" made toward full empl.
- Date-based forward guidance and front-end yield curve control, on the other hand, would require more consensus on the Committee for a slow recovery.
- Communication has suggested that completing framework review is viewed within the Fed as important for making a shift in policy. We are skeptical of that logic, but it is the FOMC's decision to make.
- FOMC may be waiting to see how large fiscal stimulus is.
- **Fwd Guidance:** Outcome-based for funds rate and asset purchases extremely likely to be adopted.

- Rates at zero until the one-year forward forecast for inflation overshoots the 2% target, for instance to 2¼%. Alternately, could pledge to hold the funds rate at zero until inflation returns to the 2% target. The former is more likely, as it keeps more optionality.
- Date-based could complement as a lower bound estimate of when the outcome-based threshold would be achieved, i.e. in event of positive but temporary data surprises.
- **YCC:** Front-end: commiting to buy Tsys that mature through the date of the forward guidance commitment at a price that is consistent with being at the ZLB. YCC further out the curve is not likely to be on the table.
- **Balance Sheet:** Fed is currently purchasing only about $35bn/month of Tsys with remaining maturities of 5yrs and longer, suspect they will opt to have slightly smaller nominal amount ($50bn) but with more dollar duration extraction by buying longer-dated paper. Would also likely be tied to an outcome-based threshold, but likely one that is more qualitative rather than quantitative, to retain optionality

Unicredit: 2nd Wave Concerns

- No major policy action; Fed remains focused on adjusting emergency facilities.
- **Statement:** Any changes will reflect the nascent recovery in May and June but, importantly, increased pessimism on the sustainability of the recovery due to both 2nd COVID wave and fiscal uncertainty.
- Fed likely to judge that some of the risks surrounding the early reopening of the economy in some states have crystalized which will weigh on the strength of the recovery in 2H20.
- **Press conference:** Powell likely resolutely dovish re COVID 2nd wave and elevated uncertainty. Likely to be asked about recent fall in size of balance sheet.
- **Fwd Guidance:** Likely kept for now, but changes surely coming later this year.
- Likely to be used to reinforce the outcome of the strategy review, which will see the Fed targeting inflation a little above 2% for a period (so-called flexible-average-inflation-targeting).
- **YCC:** Looks significantly less likely that will be adopted, following June minutes.

Wells Fargo: July Premature For Formal Forward Guidance

- The primary takeaway from the June FOMC was a pledge to do “whatever it takes” to help revive the economy.
- **Fwd Guidance:** July premature, but to be adopted in Sep (prior to elections) or Nov.
- **YCC:** Looking for clues at the press conference/minutes that the FOMC is more explicitly considering a YCC policy along the lines of Australia’s. Has some desirable policy outcomes where it has been tried.

Westpac: Considering Adjusting Asset Purchase Focus?

- FOMC’s assessment of risks/policy options critical for understanding the policy outlook.
- Risks from COVID have continued to mount since the Jun FOMC, and fiscal support near its end.
- Most critical: whether further discussions over potential benefits of increasing pace of asset purchases, or whether YCC is considered. Powell’s press conference will be the focus for assessing these possibilities.

Wrightson ICAP: Acknowledging Renewed Threats To Growth Without Sounding Alarmist

- The June minutes suggested possible that a new Statement on Longer-Run Goals and Monetary Policy Strategy could come as early as this meeting (e.g. outline the longer-run framework at this meeting and finalize the specific parameters of the policy response for the coming cycle in Sep). However, comments by Fed speakers over the intermeeting period gave no indication that the review was being fast-tracked.
- **Press conference:** Powell likely to reiterate in general terms that the FOMC plans to use asset purchases and forward guidance to support the recovery, and that the Fed's policy stance will remain extremely accommodative for years to come. More formal details will wait until the fall.
- To find a way to acknowledge the renewed threats to growth without sounding unduly alarmist.
- **Fwd guidance:** Given that market pricing is already more dovish than any formal policy commitment the FOMC is likely to make, it is unclear what benefits of more explicit guidance at this juncture would be. Arguably best saved for when market sentiment beginning to waver.
- Forward guidance in the fall will affirm Fed’s commitment to do "whatever it takes", but it remains to be seen how specific the initial details will be.

- Views coalescing on relatively soft form of inflation averaging; less interest in the more formal "averaging" strategies that were discussed earlier in the framework debate.
- Flexible inflation averaging would bring some of the benefits of a formal average-inflation-targeting rule, but it could be more robust and simpler to communicate and implement.
- Several reasons why the Fed might prefer a stripped-down version, ie "no liftoff until inflation hits 2%" – easy to communicate; fewer ‘attainability’ issues (i.e. it’s tough to actually get infl over 2%).
- **YCC:** On the backburner. Short-end YCC strategies seemed to be picking up momentum in the Fed's framework debate prior to the pandemic, but became less immediately relevant when rates collapsed.
- **Balance Sheet:** Our working assumption: the Fed will tilt the composition of its purchases toward longer-dated maturities at some point later this year, probably in September. It's probably too early in the process to expect any hints about such a shift this week. However, we would not completely rule out a bullish surprise on this front.
- On Secondary Market Corporate Credit Facility: Would not be surprising if the Fed were to announce that it planned to suspend purchases indefinitely, with the proviso that activity would ramp up again if market conditions deteriorate.

MNI Policy Team Insights

MNI EXCLUSIVE: Extra Fed Guidance May Be Delayed Till Year-End (Pub. Jul 24, 2020)

By Pedro da Costa and Jean Yung

WASHINGTON (MNI) - Federal Reserve officials may need to wait until the end of this year to deliver greater clarity on just how long they expect to keep easing monetary policy, as the ruling Republicans struggle to reach a deal over the next U.S. fiscal aid package and the coronavirus case count eclipses 4 million, former Fed officials told MNI.

Such a delay, driven by a renewed deterioration in the economy that has upended early forecasts for a fairly rapid rebound from the Covid-19-led recession, might disappoint market expectations for additional forward guidance to be announced at the Fed's September meeting.

"It's a particularly challenging time to lay down markers as to how to operate in the future or what to expect from monetary policy, which is so dependent on the trajectory of the epidemic and fiscal action," former Atlanta Fed President Dennis Lockhart said in an interview.

"September could turn out to be too early because the air just hasn't cleared enough."

Republicans on Thursday were forced to push back the release of their own proposal for a USD1 trillion aid package amid infighting. Democrats want USD3.5 trillion in relief. Enhanced unemployment benefits for millions of Americans end next week unless lawmakers and the White House strike a deal, just as initial jobless claims rebounded this week for the first time since April.

--RECOVERY FARTHER OFF

Delaying forward guidance, which the Fed sees as a key tool in stimulating the economy, would buy time for officials to reassess a now-darker economic outlook and determine when to use monetary policy to maximum effect, sources told MNI.

"Forward guidance is a form of policy that is meant to have a stimulative effect, and guidance would be most efficacious when the committee is relatively sure we are on a recovery path and the economy is not going to be buffeted in any major way by public health ups and downs," Lockhart said. It "is not something for just supporting an early rebound from a shock."

Promises on how long asset purchases would continue and rates will remain at zero would only deliver limited stimulus when expectations about a recovery begin pushing Treasury bond yields higher.

"What does forward guidance get you when the market already expects you not to raise rates any time soon?" Julia Coronado, a former Fed board economist, told MNI.

"This recalibration through this fine tuning of forward guidance was always described as something they would do once they gained clarity on the recovery," she said. "We don't have clarity."

--LENDING FACILITIES

Beyond the likely extension of corporate, municipal and Main Street credit lending facilities the Fed launched in response to market disruption in March, ex-officials do not expect major moves at next week's FOMC meeting.

Instead, they think the Fed will wait until at least September to unveil its policy framework review, which has been over a year in the making and is expected to move the central bank from a 2% inflation target to something closer to an average inflation target. Delivering a framework shift and forward guidance at the same meeting could confuse markets and muddle the Fed's messaging, some sources told MNI.

In the meantime, sources say the Fed's thus far scantily-used credit facilities will see ramped up demand as an economy placed in suspended animation through widespread forbearance arrangements is hit by a wave of consumer and corporate bankruptcies.

By that time, conditions might have deteriorated to such a degree that the guidance needs to be even more robust than investors currently expect so as to deliver the stimulus and confidence needed to ensure a smooth recovery.

"It's a noisy time to try to use forward guidance," Joseph Haslag, who spent 12 years at the Dallas Fed, told MNI. "It's too noisy for the directive and for any kind of forward guidance that comes out of that to be effective.

MNI EXCLUSIVE: Fed Inflation Overshoot Parameters Will Be Vague (Pub. Jul 23, 2020)

By Jean Yung, Pedro Nicolaci da Costa and Evan Ryser

WASHINGTON (MNI) - The Federal Reserve is set to adopt a new framework under which it would purposely exceed its 2% inflation objective to compensate for extended periods of zero rates and very subdued prices, but will refrain from setting specific parameters for how big an overshoot it would permit or for how long, former senior Fed officials told MNI.

The regime shift and culmination of a months-long policy framework review, which ex-officials expect to come in September, will also lay the groundwork for the Fed to set specific conditions under which it will maintain current near-zero rates and QE. That latter decision could be made in a subsequent FOMC meeting later this year, some sources said, although others thought it could also be announced in September.

"The Fed will simply say that its objective is for inflation to average 2% over the medium term, but there won't be a lot of apparatus attached such as how quickly deviations will be made up, how many years are in the reference window for calculating average inflation, etc.," said Nathan Sheets, a former top Fed and Treasury official.

Policymakers are reluctant to tie themselves to any rigid formula for average inflation, sources said.

"This lite form of average-inflation targeting will go a long way toward communicating the symmetry of the inflation target, while still giving them flexibility to formulate appropriate policy from meeting to meeting."

--FORWARD GUIDANCE

Given that inflation has been below target for some time, forward guidance to keep the policy rate at zero until inflation has overshot 2% for a time would also be consistent with hitting an objective focused on average inflation.

"In the past, policy had begun to tighten well before you got to your inflation objective. Now they recognize there are lags in monetary policy but they would be quite comfortable if some overshoot occurs -- and that would be desirable and would be tolerated," said former senior Fed economist Peter Hooper now at Deutsche Bank.

By contrast, "The Fed's current objective is to achieve 2%, and they would not want to tolerate a sustained overshoot for any lengthy period of time, just as they're uncomfortable with a sustained undershoot for any amount of time."

--NOT YET READY FOR YCC

A lack of consensus on whether caps on the short end of the yield curve would help reinforce the credibility of forward guidance is likely an indication that some framework issues are still under debate, former officials said.

In addition to the inflation make-up strategy, the FOMC is also expected to codify in its one-page longer-run strategy statement that forward guidance and asset purchases are its primary policy tools if rates are stuck at zero.

Sources said this and other alterations to the Fed's policy framework would likely be unveiled at the September 15-16 FOMC meeting and require careful explanation by Fed Chair Jay Powell.

Currently the statement reads: "The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate.

"The Committee would be concerned if inflation were running persistently above or below this objective. Communicating this symmetric inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored."

--COMMUNICATIONS

The new inflation-targeting strategy will also likely be accompanied by changes in how the Fed communicates its policy intentions via its statement and dot plot, ex-officials said.

Policymakers have considered numbering the dots in such a way that the forecasts for the fed funds rate could be matched to projections for unemployment, inflation and GDP over the medium term.

The dots would still be anonymous.

MNI EXCLUSIVE: Fed Fears Lagging Prices as Recession Deepens (Pub. Jul 17, 2020)

By Jean Yung and Pedro Nicolaci da Costa

WASHINGTON (MNI) - Fears over disinflationary forces are growing within the Federal Reserve as the economy faces a deeper hole than policymakers had foreseen, according to interviews with current and former officials.

Top Fed brass have maintained they expect monetary policy to keep the economy on track to reach their 2% inflation target, which was undershot during most of the recovery from the Great Recession.

Privately, former and current officials tell MNI that the downsides from such a severe shock to the economy outweigh the inflation risk, either from aggressive monetary and fiscal policy or from supply-side shocks from Covid-19. A deep slowdown could also destabilize business and household finances for a long time.

"If lots of small businesses keep closing permanently and the employment situation doesn't recover, it starts to feel more and more like the Great Depression," Andrew Levin, former special adviser to the Fed chair under Janet Yellen, said in an interview.

"That is a situation where inflation could end up way below the Fed's target for a long time."

--NOT-GREAT EXPECTATIONS

At worst, a self-reinforcing spiral of price falls and defaults could cause deflation to become entrenched. Monetary policy, with rates already at zero, is ill-equipped to counter that scenario.

The Fed's preferred inflation measure has softened considerably in recent months, a rare event that tends to set off alarm bells among central bankers. Core PCE inflation slowed to 1.0% in May from 1.8% earlier in the year, the lowest in nearly a decade.

The Fed is especially worried about signs that inflation expectations are already drifting lower, current and former officials told MNI.

Fed Gov. Lael Brainard offered the first public hints from the Federal Open Market Committee that it is taking seriously the risk of a deeper disinflation in a keynote speech this week.

"With inflation coming in below its 2% objective for many years, the risk that inflation expectations could drift lower complicates the task of monetary policy," Brainard said.

--ATLANTA FADE

Dallas Fed President Robert Kaplan also told MNI earlier this month that slack in the economy is boosting disinflationary pressures, even as supply chain issues in meat and food industries have caused a rise in those prices.

New evidence from the Fed's real-time data gathering efforts suggest there is already reason for concern. Inflation expectations on the part of businesses, a better harbinger of future price trends than consumer surveys, have fallen dramatically since March, according to the Atlanta Fed.

Year-ahead business inflation expectations for firms in the Atlanta district have fallen from as high as 2.3% in 2018-2019 to 1.4% in April, the lowest on record for its survey going back to 2011. Expectations have stayed below 1.7% over four straight months.

"We saw this low level of inflation expectations a couple times in 2016-17 but not anything where inflation expectations stayed this low for this long," Atlanta Fed policy adviser Brent Meyer told MNI. "Firms on balance see the Covid-19 shock as a demand shock, and that's a restraining force for inflation."

--NO IMPACT

Even firms that have experienced a simultaneous hit to sales and to supply chains on average expect to have to lower prices over the next six months, Meyer said.

Meyer takes comfort in the fact that firms haven't yet shifted their longer-run inflation expectations, which "remain reasonably well anchored." "If we saw a really tight correlation between businesses lowering both long run and short run expectations, that would give me quite a bit of concern," he said.

Levin worries the Fed's intention to deal with such a problem by promising to keep interest rates low for a long time will have little impact.

Markets already largely expect this so the announcement, which the Dartmouth College economist said could come as early as this month's meeting, would offer "no additional stimulus whatsoever."

MNI EXCLUSIVE: Fed May Consider Funding For Lending Program

(Pub. Jul 15, 2020)

By Pedro Nicolaci da Costa and Jean Yung

WASHINGTON (MNI) - The U.S. could consider adopting a UK-style Funding for Lending program if markets become unsettled by a second wave of Covid-19 infections, former senior Federal Reserve officials told MNI.

The program would be a way to ensure Fed credit provision makes its way toward small- and medium-sized businesses by offering funds to banks at a lower cost than prevailing market rates in return for their commitment to lend to targeted groups.

Proponents say it would be relatively simple to implement with precedents not just in Britain but also Australia. Any program must entice banks to bear the risk of bad loans and overcome the longstanding domestic stigma associated with borrowing directly from the central bank's discount window.

Funding for Lending may also compensate for the early unpopularity of the "Main Street" emergency credit facility. Fed officials have so far given no indication that they're considering such a program, though they have pledged to do whatever it takes to keep credit flowing and increasingly see a protracted recovery that may trigger a wave of corporate bankruptcies.

"That's something they could look at to encourage banks to make more loans
-- this is in addition to fine-tuning Main Street lending," said Donald Kohn, a former FOMC vice chair who spent three decades at the central bank and also worked at the Bank of England.

The Main Street lending facility came online this month with a USD600 billion capacity but has seen no take-up as of last week. MNI has reported that community-based groups with strong ties to small businesses have expressed concern to Fed officials that the loans will not reach intended recipients as their terms are currently structured.

Funding for Lending "could solve a shortage of credit if the Main Street facility isn't really doing that," said Nellie Liang, founding director of the Division of Financial Stability at the Federal Reserve Board, now at the Brookings Institution and Yale School of Management. "In some ways, why wouldn't you do it?"

--TAF REVIVAL

Funding for Lending could be ramped up without Treasury approval using the discount window authority, much in the way that the Term Auction Facility was created a decade ago.

Bill Nelson, previously deputy director of Fed's Monetary Affairs Division and now chief economist at the Bank Policy Institute, is a proponent of such a new approach for the Fed should the economic outlook worsen. With current expectations for Fed rates to remain near zero for a long time, the real question is whether access to credit is a problem that needs solving through a new program.

Credit market conditions have generally improved since March but officials have flagged the precarious situation of millions of small businesses without established banking relationships.

"The Fed did not use a Funding for Lending program in the last crisis," partly due to serious doubt over take-up, Nelson said. "But difficulties with Main Street may now have the Fed searching for simpler alternatives."

One option is targeting small business funding, he said, and the Fed could piggyback its tracking of credit using already existing reports on how much banks are lending to small firms.

"The rates would probably have to be negative to get banks to make the types of loans you want," he told MNI. "And if you want to make it simple and fast then you can't include a lot of granular detail about what types of loans Funding for Lending will support."

MNI INTERVIEW: Fed's Barkin Watches Death Rates, Stimulus Bill (Pub Jul 13, 2020)

By Jean Yung

WASHINGTON (MNI) - The recent spike in coronavirus infections across the U.S. south and west has sapped momentum from the economic rebound as consumers respond with renewed caution, Federal Reserve Bank of Richmond chief Thomas Barkin told MNI in an interview on Monday.

"People are cautious," Barkin said. "Recovery is a confidence game. Consumers are 68% of the economy and their confidence matters a lot. I thought we were on a positive trajectory. The last couple weeks have at least shaken some of that."

He's watching Congressional negotiations over another fiscal aid package and whether elevated infection rates will lead to a spike in deaths over the next month. New Covid-19 cases reached records over the weekend across the country led by large states including California, Texas and Florida, though those governors said they would only close businesses again as a last resort.

Credit card spending has flattened in the past two weeks, led by restaurant, travel, entertainment and lodging expenditures, and "it's just not clear at this point if that's temporary or a ceiling on the recovery rate," he said. Businesses feel good about their ability to operate, but are nervous about consumer demand.

Economic data so far have "come in as expected," and there is potential for households to overlook the rise in Covid cases if the death rate holds steady, Barkin said.

--COVID RATES

"Case rates are high but death rates haven't yet crept up significantly. We'll know more a month from now," said Barkin, who votes at Fed rate meetings next year.

"With some stability on the health side, you can imagine spending starting to come back and businesses starting to invest or restructure. Similarly if there were another round of fiscal stimulus -- whether that went to individuals, companies or governments -- you can imagine that would facilitate some confidence."

A number of businesses in the Richmond Fed district spanning Virginia, North Carolina and South Carolina, have called employees back to worksites. More classic white collar firms that were looking to re-open after Labor Day are now considering a further delay, Barkin said.

"Businesses have figured out how to operate without infections peaking. The challenges are less from the workplace," and more from a lack of demand, he said.

--REAL ESTATE OUTLOOK MIXED

Barkin is also paying a lot of attention to commercial real estate for signs of business and consumer confidence.

On the more consumer side, retail centers without a home improvement or other essential big-box store are "struggling," and so are lodgings targeting military and business travel, Barkin said. On the plus side, multi-family property owners are reporting good rent collections and appear "to be holding up really well," supported by stimulus payments.

The industrial sector of commercial real estate is "doing really well" he said.

The commercial office segment is up in the air, Barkin said. If more people work from home, then less office space may be needed, but employers may also need more square footage to factor in social distancing rules. Most office leases run for 10 to 15 years and "there's not a massive amount of supply to come in," Barkin said.

"It's way too early to make a call on offices. You don't know what's going to happen with the virus -- the range of outcomes is still incredibly wide."

--JOBS SHIFT

Barkin has made a concerted effort to travel around his district ever since Memorial Day. At that time he was sitting on the beach in South Carolina and noticed a marked difference in behavior and attitude in the southern parts of his district that re-opened earlier than northern ones.

The Richmond Fed's outreach team has also set an objective to speak to consumer-oriented businesses. Small doctors' and lawyers' offices they've spoken are doing fine while restaurants, retail and other personal services are scaling back payrolls to survive. Most small businesses are glad they took advantage of the Paycheck Protection Program loans and grants, but demand has not recovered.

"We were down over 20 million jobs and we're still down 15 million. Disproportionally those are people in the hospitality and leisure sector," he said.

"We will have a pretty significant population that need to find their way to the next career," if Covid remains a lingering problem, he said. "I do worry about the redeployment of those folks."

--FIRST FLIGHT

Taking a flight again for the first time since the pandemic, Barkin said all passengers were wearing masks and behaving courteously, which bodes well for a return to some semblance of normalcy as the country recovers. The middle seats were unoccupied.

Walking last week in Harrisonburg, Va., Barkin saw that of five restaurants around one street corner, two were still shuttered, one re-opened to fallen demand, one was open for takeout only and the fifth was contemplating turning the eatery into a bar.

"I talked to the guy who's cooking dinner. I do want to understand how they're thinking about things. They have all got to reassess what they're doing."

MNI INTERVIEW: Fed's Kaplan Says Covid Flare May Slow Recovery (Pub Jul 7, 2020)

By Evan Ryser

WASHINGTON (MNI) - Increased spread of Covid-19 in the U.S. is likely slowing the economic rebound, Dallas Fed President Robert Kaplan told MNI Tuesday, adding he's not ready to embrace expanded tools like forward guidance or yield curve control.

"With the resurgence in cases and particularly hospitalizations it feels to us growth is slowing," he said in an interview.

"Looking at mobility data and having a wide range of conversations every day with businesses, it feels to me that growth is slowing from the pace we were rebounding the first month-and-a-half after re-opening," Kaplan said.

"The next few weeks are very critical," he said. For now he's keeping 2020 projections for GDP to shrink by 4.5% to 5% and for unemployment of 8% to 9% at year-end. Slack in the economy is also boosting disinflationary pressures, Kaplan said, even as supply chain issues in meat and food industries have caused a rise in those prices.

Kaplan wants more clarity on the outlook before future discussions on adding specific forward guidance to the array of tools already propping up markets and the economy. "I want to turn over a few more cards and see how the economy unfolds before being prepared to say more about that," he said on guidance.

It's better to have guidance that tackles both the Fed's "dual-mandate objectives" around inflation and unemployment, he said. "That would always be my preference, and that means looking to both growth and inflation, and broadly the circumstances."

--AVOID CURVE CONTROL

Kaplan "would not be an advocate" of yield curve control or targets. "I would be concerned about some of the impacts that it could have on distorting the yield curve, distorting the pricing mechanisms of the debt markets," Kaplan said, adding he would keep an open mind.

The Dallas Fed leader, an FOMC voter this year, remains optimistic the U.S. can deal with the resurgence of the virus when mask-wearing, testing, social distancing, and contact tracing are better observed. Texas was one of the first states to re-open and reported more than 10,000 additional Covid-19 cases Tuesday, surpassing the previous record of about 8,300 cases on July 4.

"The duration of this crisis is going to be maybe longer than some people expect," he said. "This is unlikely to be a situation that gets resolved quickly."

MNI EXCLUSIVE: Fed Likely To Re-Up Covid Lending Facilities (Pub Jul 1, 2020)

By Evan Ryser

WASHINGTON (MNI) - The Federal Reserve will likely extend its emergency programs to backstop companies and markets past their set end date of late September, former Fed officials told MNI, citing persistent concerns over the path of Covid-19 and the small cost of keeping these facilities open.

Some of the 11 lending facilities will likely be adjusted if usage continues to be low, particularly the Main Street program for small and midsize businesses and the Municipal Liquidity Facility, the ex-officials said. Main Street has yet to disburse any money while only one state has tapped the latter program since it became operational a month ago.

An extension of the lending facilities should reassure investors that smooth market functioning will be sustained as the strength of the recovery rises and falls with coronavirus infection numbers, sources said.

"The economy won't have recovered by the fall, and so there will still be a need to support access to credit," William English, former director of the division of monetary affairs at the Fed, told MNI.

"There isn't really a need to close the programs down while the uncertainty around the virus and the economic outlook remains high."

Nathan Sheets, former international finance division director at the Fed Board said the programs could be extended at least another six months. "A September expiration is pretty close. They are going to want the insurance around a little longer."

--LOW USAGE

Usage of the 11 so-called "Section 13(3)" facilities has totaled roughly USD100 billion thus far, a tiny fraction of the USD2.6 trillion of lending the Fed said it would provide to companies and funds under "unusual and exigent circumstances."

The last of them, the Primary Market Corporate Credit Facilities, was brought online Monday but the Fed said it has yet to be approached by any interested issuer. That usage is low is seen by the Fed as a positive sign that its presence has restored confidence and enabled private parties to continue transacting.

But in a Brookings Institution paper this month English argued the terms of the Main Street program are too unattractive to borrowers. He reckons the program is likely to see changes. "I think take-up on the program is likely to be pretty modest, and the Fed and Treasury may well make some changes to try to encourage use."

Fed Chair Jerome Powell on Tuesday told lawmakers he would consider lowering the minimum loan threshold from USD250,000.

-- TEMPORARY FX SWAPS

The Fed is also likely to extend the nine temporary dollar swap arrangements that are in place with central banks from Australia, Brazil, Denmark, South Korea, Mexico, New Zealand, Norway, Singapore and Sweden, the former officials said.

Though the use of standing and temporary swap lines has declined from highs of USD450 billion to about USD275 billion, the "amount remains high," English said, and "they serve as a useful backstop. I don't see much reason to close them down in a hurry."

"September is not very far off. I don't think we are going to get any decisive information on the economy in the next three months to move away from those facilities," former Minneapolis Fed President Gary Stern told MNI.

"It is virtually costless to continue to make them available."

A joint decision by the Fed and the Treasury is required to extend the programs, nine of which are set to be terminated in late September. The municipal facility is set to stop lending in December and the commercial paper funding facility ceases operation in March.

MNI EXCLUSIVE: Fed Dials Down Yield Curve Control Expectations (Pub. Jun 24, 2020)

By Evan Ryser

WASHINGTON (MNI) - The Federal Reserve sees little justification for short-end yield caps with borrowing costs near record lows but hasn't ruled out using the tool as a limited accessory to forward guidance, according to interviews with current and former Fed officials.

Divisions among FOMC officials about how long the recovery will take may be one reason tools like curve control remain in the background, said Nathan Sheets, former international finance division director at the Fed Board. Noting the wide range for GDP growth for 2021 of -1% to +7% in the June SEP, he said: "The committee is not yet crystalized in what exactly the right response is before jumping in with both feet," Sheets said.

YCC "remains on the table," even if current low rates aren't expected to surge in the next few months, Sheets said. Curve control can be seen "as an extension of communication policies," he added. "It is a way to complement forward guidance and asset purchases for some time."

--JUDICIOUS SKEPTICISM

Officials have signaled near-zero policy rates will remain for years until a recovery is firmly in place, so the dilemma is what to do through that prolonged comeback if yields surge and choke economic growth.

Fed Chair Jerome Powell told Congress last week the FOMC's study of yield-curve control was at an early phase and no decisions had been taken. Other Fed officials have offered similar views after their June meeting suggesting they are not ready to implement curve control now.

"There is a difference between a sort of modest, gradual increase of intermediate and longer-term rates and a jump, or a surge, in longer-term rates," former Minneapolis Fed President Gary Stern told MNI. "It's the latter that is much more likely to grab the Fed's attention."

"The evidence on pegging interest rates is mixed," Stern said. "A little bit of judicious skepticism is in order."

--EFFECTIVENESS LIMITED

Doubts around the effectiveness of curve control resemble the misgivings over negative interest rates, another idea Powell has downplayed, citing the international record.

A New York Fed analysis published this week of Japan's commitment to keeping the 10-year yield at around zero concluded that the policy framework was "seemingly not" a success on the inflation front and "the jury is still out" over whether it helped the BOJ achieve its policy goals.

Dallas Fed leader Robert Kaplan said June 15 that he was wary of creating market distortions and dampening price signals. "I'm in the stage, for me, of having a little skepticism but wanting to continue to explore it," he said.

Curve control could be a "little helper," but forward guidance and QE are the Fed's go-to tools at the zero lower bound, Mary Daly of the San Francisco Fed, who becomes an FOMC voter next year, said at a separate event on June 15.

Even before the pandemic, Fed Governor Lael Brainard cited advantages of yield caps while pointing to the "lumpiness" of initiating and rightly calibrating asset purchases, decisions she said can be "costly."

The Fed has already taken several unprecedented policy leaps to fight Covid-19 including loans to "Main Street" backed by Congress, swelling the balance sheet to a record size of USD7 trillion.