

Thursday, 30 April 2009

Flash Notes

The April 28-29 FOMC meeting: Awkwardly Uneventful

- The conclusion of the two-day Federal Open Market Committee (FOMC) meeting on April 29 was largely uneventful. The less ominous guidance on the growth outlook and the near-term description of the “somewhat slower” rate of contraction in the first paragraph of the accompanying statement were unsurprising.
- Specifically, the Committee recognizes that since the prior meeting around the middle of March, the “pace of contraction appears to be somewhat slower”. While this is partly due to the observed stabilization in consumer spending in the near-term, the Committee cautions that the ongoing negative influences from the weak labor market, diminution in housing wealth and tight credit conditions remain. Although the Committee also perceives that the growth outlook has “improved modestly”, partially linked to the less strained market conditions, the economy is “likely to remain weak for a time”.
- But the Committee throws in a teaser at the end of the statement, emphasizing that it “will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets”. (The \$300 billion Treasury purchases will be exhausted by September 2009, and the \$850 billion agency purchases will continue through the end of this year.) Of all the employed policy actions thus far, according to my estimation, the Treasury and agency security purchase operations--roughly accounting for slightly more than 40% of all policy-related activity to-date--have clearly taken a greater share of importance recently. This is also partly because activity in the Term Asset-Backed Securities Loan Facility (TALF) program, which has an overall allocation of \$1 trillion, has been generally lackluster, garnering only slightly more than \$6 billion in total over the last two monthly subscriptions.
- To be sure, as the Fed’s balance sheet expands and its portfolio holdings lengthen in maturity, the debate on exit strategies and effective reserve management tools will intensify. Based on the latest available data, my calculations suggest that roughly half of the Fed’s total portfolio holdings (and still rising) have a maturity composition of greater than 10 years, essentially nearly triple the percentage share compared to a year ago.

Note: A copy of the April FOMC statement can be obtained from <http://www.federalreserve.gov/newsevents/press/monetary/20090429a.htm>

Disclaimer: This analysis is based on information available to the public. Although the information contained herein is believed to be reliable, UOB Group makes no representation as to the accuracy or completeness. Also, opinions and predictions contained herein reflect our opinion as of date of the analysis and are subject to change without notice. UOB Group may have positions in, and may effect transactions in, currencies and financial products mentioned herein. Prior to entering into any proposed transaction, without reliance upon UOB Group or its affiliates, the reader should determine, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the transaction and that the reader is able to assume these risks. This document and its contents are proprietary information and products of UOB Group and may not be reproduced or otherwise.
