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# Macro Note

## US Jun 21 FOMC: Talk About Taper Talk, With Hikes Brought Forward To 2023

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- The Fed Reserve, as widely expected, kept its policy rates and asset purchase program unchanged in its June FOMC. But Fed's 2021 inflation forecast was adjusted much higher to 3.4% (from 2.4%) while its growth outlook continued to turn more bullish (7% in 2021 from 6.5% previously) and unemployment rate stayed at 4.5% in 2021 and remains on track to head below long term rate by 2022. And while Powell kept to his mantra that the recovery remains uneven and incomplete, and '*substantial further progress*' still some way off, he also highlighted inflation has increased notably in recent months and assessed that inflation could turn out to be higher and more persistent than the Fed expected.

- Further in his news conference, Powell shifted from his previous position of "***it is not time yet***" to begin talking about QE taper, to acknowledging that officials discussed the cutting back on its bond-buying program at the meeting, characterizing it as "***talking about talking about***" meeting. Another important development was the FOMC's June Dot plot chart now showing that a majority of the participants (13 out of 19 members) expect a hike in 2023 (up from 7 in March), although Powell tried to downplay the importance of the Dot plot, saying those projections do not represent a committee decision or plan.

- Powell's press conference and the updated economic and interest rate projections suggest to us that there is a shift forward to the Fed policy timeline. The beginning of the "talk about the talk" could now set in motion for taper discussion which will lead to the fleshing out of the tapering of its asset purchase program. The first indicative hint could be released during the Jackson Hole Symposium (26 Aug) and further articulated into a pledge of the taper timeline in the 21/22 September 2021 FOMC. We now expect the first taper to be carried out in December 2021 and the tapering process will last for nearly 1.5 years until May 2023. Thereafter, we project two 25bps rate hikes in 2023, first to 0.25%-0.50% in June and then to 0.50%-0.75% in December.

**Our Revised Projected Schedule And Quantity For Fed's QE Taper & Rate Hike (As of 17 Jun 2021)**

| *Date* | *Mortgage-Backed Securities (US$bn)* | *US Treasuries (US$bn)* | *Total mthly QE (US$bn)* | *Target for Fed Funds Rate (%)* | *Events/Data to watch* |
|---|---|---|---|---|---|
| **2021** | | | | | |
| **June** | 40 | 80 | 120 | 0.0-0.25 | FOMC* |
| **July** | 40 | 80 | 120 | 0.0-0.25 | FOMC |
| **August** | 40 | 80 | 120 | 0.0-0.25 | Jackson Hole |
| **September** | 40 | 80 | 120 | 0.0-0.25 | FOMC* |
| **October** | 40 | 80 | 120 | 0.0-0.25 | |
| **November** | 40 | 80 | 120 | 0.0-0.25 | FOMC |
| **December** | 30 | 60 | 90 | 0.0-0.25 | FOMC* - First Taper |
| **2022** | | | | | |
| **January** | 30 | 60 | 90 | 0.0-0.25 | FOMC |
| **February** | 30 | 60 | 90 | 0.0-0.25 | |
| **March** | 25 | 50 | 75 | 0.0-0.25 | FOMC* |
| **April** | 25 | 50 | 75 | 0.0-0.25 | FOMC |
| **May** | 25 | 50 | 75 | 0.0-0.25 | |
| **June** | 20 | 40 | 60 | 0.0-0.25 | FOMC* |
| **July** | 20 | 40 | 60 | 0.0-0.25 | FOMC |
| **August** | 20 | 40 | 60 | 0.0-0.25 | Jackson Hole |

| | | | | | |
|---|---|---|---|---|---|
| **September** | 15 | 30 | 45 | 0.0-0.25 | FOMC* |
| **October** | 15 | 30 | 45 | 0.0-0.25 | |
| **November** | 15 | 30 | 45 | 0.0-0.25 | FOMC |
| **December** | 10 | 20 | 30 | 0.0-0.25 | FOMC* |
| **2023** | | | | | |
| **January** | 10 | 20 | 30 | 0.0-0.25 | FOMC |
| **February** | 10 | 20 | 30 | 0.0-0.25 | |
| **March** | 5 | 10 | 15 | 0.0-0.25 | FOMC* |
| **April** | 5 | 10 | 15 | 0.0-0.25 | FOMC |
| **May** | 5 | 10 | 15 | 0.0-0.25 | |
| **June** | 0 | 0 | 0 | 0.25-0.50 | FOMC* - 1st FFTR rise to 0.25-0.50% in 2Q 2023 |
| **July** | 0 | 0 | 0 | 0.25-0.50 | FOMC |
| **August** | 0 | 0 | 0 | 0.25-0.50 | Jackson Hole |
| **September** | 0 | 0 | 0 | 0.25-0.50 | FOMC* |
| **October** | 0 | 0 | 0 | 0.25-0.50 | |
| **November** | 0 | 0 | 0 | 0.25-0.50 | FOMC |
| **December** | 0 | 0 | 0 | 0.50-0.75 | FOMC*- 2nd FFTR rise to 0.50-0.75% in 4Q 2023 |
| | | | | | |

Source: UOB Global Economics & Markets Research Estimates, *:Meeting associated with an updated Summary of Economic Projections

## A Look Back To 2013's QE Taper Timeline

**2013 QE Taper: Market Behaviour**


Source: Macrobond, UOB Global Economics & Markets Research

### Keeping Status Quo As Expected But Fed Also Begins "Talking About The Talk" For QE Taper

- The Federal Reserve, in its 15/16 Jun 2021 FOMC policy statement, as widely expected, kept its policy rates unchanged, maintained its pledge "*to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time*" and its asset purchase program unchanged as it "*will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month **until substantial further progress** has been made toward the Committee's maximum employment and price stability goals*." The decision in the latest FOMC was unanimous (11-0 vote), just like the April FOMC.

- Separately in its implementation note, the Fed increased the interest paid on excess reserves (IOER) by 5bps to 0.15% (from 0.1%) and raised the overnight reverse repo agreements (ONRRP) also by 5 bps to 0.05% (from zero), to "support the smooth functioning of short-term funding markets". This is certainly a response to address the recent glut in the cash parked with its facility for overnight reverse repurchase agreements. The Fed also decided to extend the temporary US dollar liquidity swaps facility for 9 foreign and international monetary authorities through 31 Dec 2021.

- The changes in the text for the latest FOMC statement were again limited to the US economic & inflation assessment paragraphs (the 2nd, 3rd and 4th paragraphs). One key takeaway is the removal of a longstanding reference to the COVID-19 pandemic being a drag on economic growth and replaced with a positive statement that *"Progress on vaccinations has reduced the spread of COVID-19 in the United States."* in addition to *"Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy."*

- There was no change to Fed's inflation assessment in the text as it continued to succinctly note that "*Inflation has risen, largely reflecting transitory factors*" (same as April FOMC). However, during his post-decision press conference, FOMC Chair Powell while maintaining his mantra that the recovery is incomplete, risks remain and '*substantial further progress*' still some way off, he highlighted inflation has increased notably in recent months and will likely remain elevated in coming months before moderating. He added that there is upward pressure from rebound in spending and the bottleneck effects putting upward pressure on inflation have been larger than anticipated. He assessed that inflation could turn out to be higher and more persistent than the Fed expected, and the central bank would be prepared to adjust policy if inflation expectation moved too high. He added that he does not dismiss the possibility that inflation will stay high for longer than expected, and feed into expectations, and that by 2023, the Fed views that inflation will be higher in relation to high employment. (i.e hawkish outlook for inflation, in our view).

- Further in his news conference, Powell shifted from his previous position of "***<u>it is not time yet</u>***" to begin talking about QE taper, to acknowledging that officials discussed the cutting back on its bond-buying program at the meeting, characterizing it as "***<u>talking about talking about</u>***" meeting. Powell noted "*assuming that is the case* (of continued progress ahead toward that objective*), it will be appropriate to consider announcing a plan for reducing our asset purchases at a future meeting. So at coming meetings the committee will continue to assess the economy's progress toward our goals and will give <u>advanced notice before announcing any decision</u>. The timing, of course, will depend on the pace of that progress and not on any calendar.*" Powell was of the view that progress toward the Fed's dual employment and inflation goals was happening somewhat faster than anticipated. He particularly noted the sharp rebound in growth that now has the Fed seeing GDP growth at 7% in 2021.

### Inflation Forecasts Markedly Higher, Uptick To GDP Growth But Unemployment Unchanged

- The most material adjustment to the forecasts was seen for 2021 inflation as both headline and core PCE in 2021 were revised higher, to 3.4% (previous forecast: 2.4%) and 3.0% (previous forecast: 2.2%) respectively. This was not unexpected given the recent price developments, but Fed's transitory theme remained intact as the subsequent inflation in 2022 and 2023 were similar to previous forecasts. Estimates for headline is projected to ease back to 2.1% in 2022 (previous forecast: 2.0%) and edge slightly up to 2.2% in 2023 (previous forecast: 2.1%). Long term PCE inflation remains anchored at 2%.

- Meanwhile, US GDP is now expected to expand by 7% in 2021 (previous forecast 6.5%). And even though growth will ease down from the 2021's rate, it will still remain above trend growth for the next two years, at 3.3% in 2022 and 2.4% in 2023 (assuming trend growth equals to the longer run growth of 1.8%). Unemployment rate is expected to stay anchored at 4.5% in 2021 (unchanged from previous forecast in March) and ease further to 3.8% (previous forecast: 3.9%) in 2022 and 3.5% in 2023, which is lower than the longer run rate of 4.0%. See Table on last page

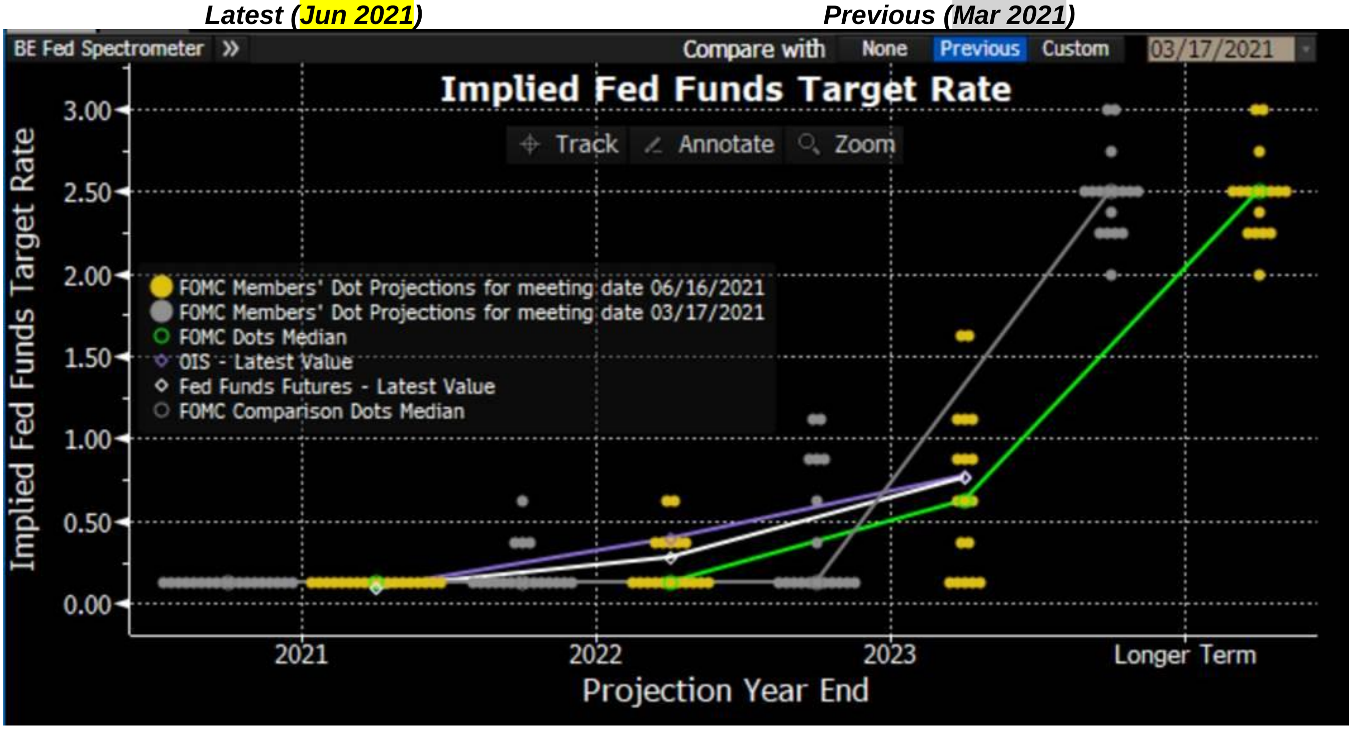
### Dot-plot: Rate Hike Expectations Moving Towards 2023 Among FOMC participants

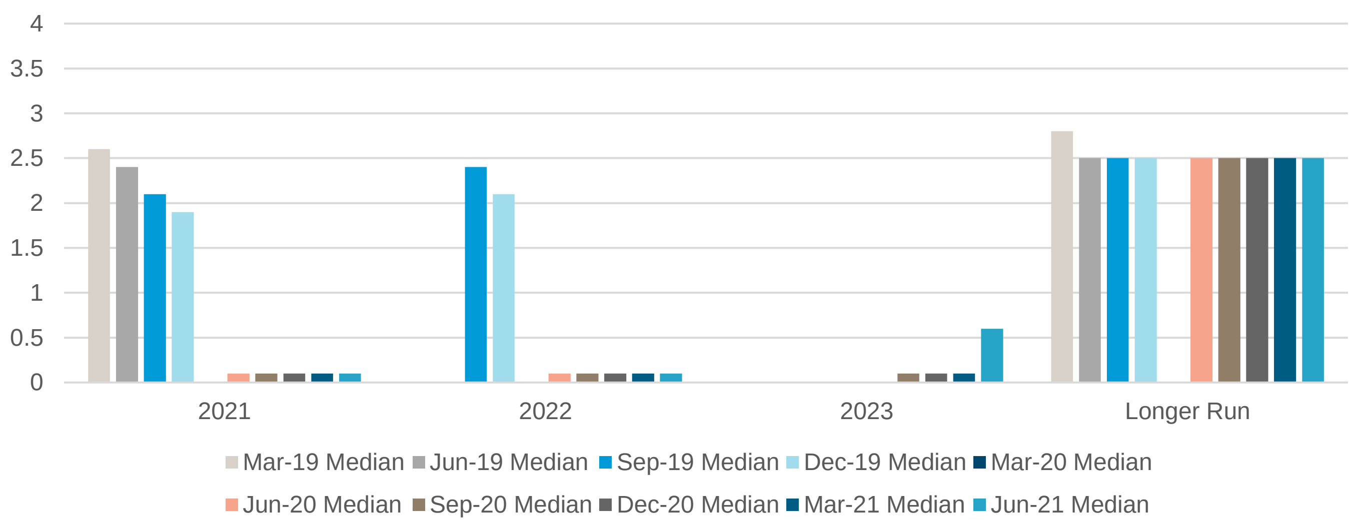
- According to its updated June summary of economic projections and its "Dot-plot" chart, the FOMC will still keep its policy rates at 0.0%-0.25% range (median at 0.1%) in 2021 and 2022, although the median view of the appropriate Fed funds rate at end-2023 has now moved up to 0.6% (from 0.1% previously in March).

- Some of the FOMC current 19 participants (including non-voters) have turned less dovish with 7 now expecting a rate hike in 2022 (up from just 4 members in March 2021 FOMC) while 13 members (a majority) expect a hike in 2023 (up from 7 in March). Powell noted that many participants forecast conditions for lift-off will be met sooner than previously thought although he was also quick to clarify that the Fed projections do not represent a committee decision or plan.

**June 2021 Vs March 2021 Dot Plot Chart Rate Comparison & History Of Past Projections**

***Latest (Jun 2021)*** ***Previous (Mar 2021)***




Source: The Federal Reserve, Bloomberg, UOB Global Economics & Markets Research (As of 17Jun 2021)

**FOMC Outlook – QE Tapering Could Now Happen By End-2021, Rate Hikes By Mid-2023**

- While the latest June FOMC statement contained no surprises, Powell's press conference and the updated economic and interest rate projections, suggest to us that there is a shift forward in the Fed policy timeline. The beginning of the "talk about the talk" could now set in motion for taper discussion which will lead to the fleshing out of the tapering of its asset purchase program. The first indicative hint could be released during the Jackson Hole Symposium (26 Aug) and further articulated into a pledge of the taper timeline in the 21/22 September 2021 FOMC.

- We now expect the first taper to be carried out in December 2021 and the tapering process will last for nearly 1.5 years until May 2023. Thereafter, we project two 25bps rate hikes in 2023, first to 0.25%-0.50% in June and then to 0.50%-0.75% in December.

- This is premised on the return to economic/social normalcy on the continued successful rollout of vaccinations across the US, additional US stimulus in the form of Biden's infrastructure spending, the continued jobs recovery in the current cycle (which remains several million jobs below pre-pandemic level but is picking up pace in recent months), and barring a serious resurgence in COVID-19 infections and deaths due to COVID-19 variants.

- The next FOMC will be on 27/28 July 2021 (decision on Thursday 29 Jul 2021, 2am SGT) and will be accompanied by a Powell press conference but without an updated Summary of Economic Projections.

- Please click on the following links to access:

  - The 15/16 Jun 2021 (scheduled) FOMC statement
  - Implementation Note issued 16 Jun 2021
  - The FOMC calendar for 2021

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## Economic Projections of US Federal Reserve Board, June 2021

| Variable | 2021 | 2022 | 2023 | Longer Run |
|---|---|---|---|---|
| Change in real GDP | **6.8 - 7.3 (↑)** | **2.8 - 3.8 (↓)** | **2.0 - 2.5 (-)** | **1.8 - 2.0 (-)** |
| March 2021 projection | **5.8 - 6.6 (↑)** | **3.0 - 3.8 (↑)** | **2.0 - 2.5 (↓)** | **1.8 - 2.0 (↑)** |
| December 2020 projection | 3.7 - 5.0 (↑) | 3.0 - 3.5 (↑) | 2.2 - 2.7 (↓) | 1.7 - 2.0 (-) |
| | | | | |
| Unemployment rate | **4.4 - 4.8 (↑)** | **3.5 - 4.0 (↓)** | **3.2 - 3.8 (-)** | **3.8 - 4.3 (-)** |
| March 2021 projection | **4.2 - 4.7 (↓)** | **3.6 - 4.0 (↓)** | **3.2 - 3.8 (↓)** | **3.8 - 4.3 (↓)** |
| December 2020 projection | 4.7 - 5.4 (↓) | 3.8 - 4.6 (↓) | 3.5 - 4.3 (↓) | 3.9 - 4.3 (-) |
| | | | | |
| PCE inflation | **3.1 - 3.5 (↑)** | **1.9 - 2.3 (↑)** | **2.0 - 2.2 (-)** | **2.0 (-)** |
| March 2021 projection | **2.2 - 2.4 (↑)** | **1.8 - 2.1 (↑)** | **2.0 - 2.2 (↑)** | **2.0 (-)** |
| December 2020 projection | 1.7 - 1.9 (↑) | 1.8 - 2.0 (↑) | 1.9 - 2.1 (↑) | 2.0 (-) |
| | | | | |
| Core PCE inflation | **2.9 - 3.1 (↑)** | **1.9 - 2.3 (↑)** | **2.0 - 2.2 (-)** | |
| March 2021 projection | **2.0 - 2.3 (↑)** | **1.9 - 2.1 (↑)** | **2.0 - 2.2 (↑)** | |
| December 2020 projection | 1.7 - 1.8 (↑) | 1.8 - 2.0 (↑) | 1.9 - 2.1 (↑) | |
| | | | | |
| Federal Funds Rate | **0.1 (-)** | **0.1 - 0.4 (-)** | **0.1 - 1.1 (↑)** | **2.3 - 2.5 (-)** |
| March 2021 projection | **0.1 (-)** | **0.1 - 0.4 (↑)** | **0.1 - 0.9 (↑)** | **2.3 - 2.5 (-)** |
| December 2020 projection | 0.1 (-) | 0.1 (-) | 0.1 - 0.4 (-) | 2.3 - 2.5 (-) |
| | | | | |
| | | | | |
| Change in real GDP | **7.0 (↑)** | **3.3 (-)** | **2.4 (↑)** | **1.8 (-)** |
| March 2021 projection | **6.5 (↑)** | **3.3 (↑)** | **2.2 (↓)** | **1.8 (-)** |
| December 2020 projection | 4.2 (↑) | 3.2 (↑) | 2.4 (↓) | 1.8 (↓) |
| | | | | |
| Unemployment rate | **4.5 (-)** | **3.8 (↓)** | **3.5 (-)** | **4.0 (-)** |
| March 2021 projection | **4.5 (↓)** | **3.9 (↓)** | **3.5 (↓)** | **4.0 (↓)** |
| December 2020 projection | 5.0 (↓) | 4.2 (↓) | 3.7 (↓) | 4.1 (-) |
| | | | | |
| PCE inflation | **3.4 (↑)** | **2.1 (↑)** | **2.2 (↑)** | **2.0 (-)** |
| March 2021 projection | **2.4 (↑)** | **2.0 (↑)** | **2.1 (↑)** | **2.0 (-)** |
| December 2020 projection | 1.8 (↑) | 1.9 (↑) | 2.0 (-) | 2.0 (-) |
| | | | | |
| Core PCE inflation | **3.0 (↑)** | **2.1 (↑)** | **2.1 (-)** | |
| March 2021 projection | **2.2 (↑)** | **2.0 (↑)** | **2.1 (↑)** | |
| December 2020 projection | 1.8 (↑) | 1.9 (↑) | 2.0 (-) | |
| | | | | |
| Federal Funds Rate | **0.1 (-)** | **0.1 (-)** | **0.6 (↑)** | **2.5 (-)** |
| March 2021 projection | **0.1 (-)** | **0.1 (-)** | **0.1 (-)** | **2.5 (-)** |
| December 2020 projection | 0.1 (-) | 0.1 (-) | 0.1 (-) | 2.5 (-) |

*Source: US Federal Reserve*

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