Weekly Commentary

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Minutes about years

The minutes of the March Federal Open Market Committee (FOMC) meeting released last week did nothing to dispel the notion that it likely will be two years before policymakers raise the fed funds rate. One gets the feeling the two-day meetings were uneventful on that front, with officials focusing more on the recent uptick in inflation. The Federal Reserve stance remains that any surge likely is to be temporary and eventually cave to large-scale disinflationary forces. This hasn't changed even as policymakers raised their forecast of GDP growth in 2022 and 2023 or that they think the unemployment rate might decline to "historically low levels." That's a direct quote from the minutes and a striking reminder the Fed is serious about its new framework of tolerating inflation above 2%. It isn't going to tighten even if the labor market is running hot.

One noteworthy item in the minutes concerns overnight lending. Many asset managers thought it possible the Fed would raise rates on its reverse repo facility and interest on excess reserves at the meeting. It did not, but it seems that is very much on the table: "[The] Federal Reserve could consider adjusting its administered rates if undue downward pressure on overnight rates emerged." We think undue pressure is already here and hope that action comes soon.

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