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Weekly Commentary

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Fed reboot coming

We may not have to wait long for the Federal Reserve to tell us it will take a lot longer to raise rates. Released this week, the minutes of the Federal Open Market Committee indicate the Fed has all but wrapped up a major revision of its policy framework. Officially called the "Statement on Longer-Run Goals and Monetary Policy Strategy," it lays out the Fed's over-arching monetary policy. This document is rarely changed: the present one was adopted seemingly decades ago in 2012.

Policymakers' desire to draft a new plan stems from how difficult it has been to induce inflation. In the past, attempts to get to their target of 2% usually came from above it, i.e., to stamp down high inflation. But since the global financial crisis, policymakers have been staring up at that level, initiating policy tools such as quantitative easing to push it higher. Economists generally agree that high inflation can be tamed, but don't have proven methods for pulling an economy out of deflation. The aim, therefore, is to devise an approach that could carefully grow inflation, even if it temporarily rises above 2%. The Fed has been crafting this updated framework for some time, but it has been slowed by the pressing work to combat the economic and financial-market effects of Covid-19. The minutes suggest the new plan will be unveiled at the September FOMC meeting.

The London interbank offered rates (LIBOR) were mixed this week from last, with 1-month rising 3 basis points to 0.18%, 3-month inching downward 2 basis points to 0.25% and 6-month slipping 2 basis points to 0.31%.