

Market Insights

Key Takeaways from the May FOMC Meeting

LIQUIDITY | GLOBAL LIQUIDITY TEAM | MARKET INSIGHT | MAY 1, 2019

As expected, the Federal Open Market Committee (FOMC) kept the range for the federal funds rate unchanged at 2.25%-2.50% during its May meeting. While acknowledging inflation over the last few months has been lower than the Committee anticipated, Federal Reserve (Fed) Chairman Jerome Powell noted the FOMC believes the recent dip in inflation has been impacted by “transitory factors” and inflation will trend back towards their 2% target. Chairman Powell reiterated the Fed’s next move could be either a Fed funds rate hike or cut, depending on data.

FOMC Meeting Summary¹

- **Monetary Policy Decisions**
 - Unanimously voted to maintain the target range for the Fed funds rate at 2.25%-2.50%
 - Lowered the interest on excess reserves (IOER) by 0.05% to 2.35% from 2.40%
 - Chairman Powell noted the decrease in the IOER is a technical adjustment designed to control overnight rates in the Fed funds market, and should not be viewed as any change to overall monetary policy
- **Economic Conditions**
 - Chairman Powell acknowledged that economic growth and job creation since the Fed’s last meeting in March has been stronger than anticipated
 - Powell also noted international risks have moderated since the beginning of the year, as evidenced by recent improvement in European and China economic data, a delayed Brexit and reports of progress in U.S.-China trade negotiations
- **Inflation Commentary**
 - The FOMC believes some “transitory factors” may be contributing to lower inflation readings and, given a strong job market and continued economic growth, inflation should return to its 2% target
 - PCE inflation for 12-months ended in March 2019: 1.5%
 - Core PCE inflation for 12-months ended in March 2019: 1.6%
 - Transitory factors: Lower prices on portfolio management services, apparel prices and airfare should dissipate over time
- **Policy Outlook**
 - The Fed noted that in light of global economic and financial developments and muted inflation pressures, the Committee will continue to be “patient” as it decides what future adjustments to the Fed funds rate are appropriate
 - Chairman Powell reiterated the Fed’s next move could be either a Fed funds rate hike or cut
- **Market Reaction**
 - After an initial rally, Treasuries sold off throughout the FOMC press conference with yields on U.S. Treasuries (2-year, 5-year, and 10-year) rising 4-6 basis points

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¹ Source: FOMC May 1, 2019 Statement.

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