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Instant Analysis of Today's October FOMC Statement

FOMC ends QE3 as anticipated
Keeps "considerable time" language in forward target rate guidance
Statement not as dovish as markets had hoped- However
Upgrades assessment of current labor market conditions
Notes near-term weakness in inflation- but weakness not yet seen as persistent
Leaves door open for faster or slower rate hikes than currently anticipated
This time the dove dissents: Narayana Kocherlakota
Kocherlakota wants to continue the asset purchase program at its current pace
Kocherlakota wants to keep current target range until market inflation expectations recover
Markets down- S&P 500 -0.5%, 2-Yr Treasury +5.6 bps to 0.48%, USD strengthens

The FOMC appears to be staying the course with the October FOMC statement. The headlines today and tomorrow morning will be trumpeting the end of QE3, but that was already widely anticipated by the markets and economic analysts. The question is how does the FOMC proceed from here? When does the Fed start to raise the Fed funds target rate range, and how quickly do they move it higher?

Unfortunately the statement has become a bit of a Rorschach test in recent months with analysts and the markets able to read into it whatever their pre-conceived notions are. There was again a little bit for everyone in the October statement. Doves will take some solace that the FOMC kept the "considerable time" language in their forward guidance around the fed funds target rate. However, the statement as a whole was probably not as dovish as the markets had hoped going into today. Moreover, the statement itself was quite a bit shorter than the one we had in September, suggesting an attempt by the FOMC to simplify and streamline its messaging with the end of QE3.

The upgrades on current labor market conditions were extensive in the statement. The FOMC noted "solid job gains and lower unemployment rate". They also noted that, "underutilization of labor resources is gradually diminishing". They go on with "there has been substantial improvement in the outlook for the labor market since the inception of its current asset purchase program".

The markets will be focused on the FOMC's current thoughts on inflation. The Fed noted that market-based measures of inflation compensation have declined somewhat, but balanced this with the fact that survey-based measures of longer-term inflation expectations have remained stable. Further they held to their view that the current weakness in inflation, which is being aggravated by lower energy prices, will not be persistent.

If that "temporary" disinflation view wasn't enough to get the doves in a tizzy, the FOMC left the policy door open more explicitly to faster as well as slower rate hikes than currently anticipated, depending on the progress toward the Committee's dual mandate on employment and inflation. This is a clear shot across the bow to the Fed funds futures market, which has been notoriously underpricing the probability of rate hikes next year. As if on cue, short-term Treasury yields were on the rise later this afternoon.

This time it was the doves turn to dissent. Narayana Kocherlakota dissented believing the FOMC should continue its QE3 asset purchase at its current level and commit to keeping the current fed funds rate at its current range until 1 to 2 year forward inflation expectations have moved back to the Fed's two percent threshold.

Markets were generally lower in the wake of the FOMC statement. Treasury bond yields increased modestly across the maturity spectrum. The S&P 500 moved down by a half a percent, and the US dollar strengthened against major currencies.