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Instant Analysis

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Instant Analysis of Today's October FOMC Statement

FOMC Statement Not as Dovish as Markets' Expected
Fed sees moderate U.S. growth
Fed mentions "next meeting" specifically, signaling December remains a live meeting
No Rate Hike Today- But December 2015 Remains Our Forecast for Liftoff
Language on global economic developments further pushing down U.S. inflation removed
FOMC appears less worried about global developments throwing off inflation forecasts
Upgrades assessment of household spending and business fixed investment to "solid"
Fed funds futures implied probably of December rate hike at 46.2% up 12 percentage points
Market reaction- S&P 500 +0.6%, 10-Yr Treasury at 2.09% up 5 bps, USD strengthens

Despite passing on raising interest rates at today's meeting (no one thought they would), the FOMC showed some real backbone today, releasing a statement that wasn't nearly as dovish as the markets' were expecting going into the meeting. The statement had only a handful of changes since the last meeting in September, but those changes were telling, and likely designed to signal to the markets some very important information about the upcoming FOMC meeting in December.

Laying the ground work, the FOMC sees the U.S. economy expanding at a moderate pace, and upgraded its assessment of household spending and business fixed investment as increasing at "solid rates" from "increasing moderately" at the September meeting. The FOMC also appears less worried about global economic and financial developments throwing off their inflation forecasts. The FOMC statement language from the September meeting that talked about "global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near-term" was taken out of the FOMC statement for October. This is a huge hint in my opinion. We have the FOMC answer - they are not as worried about global economic and financial developments materially throwing off their inflation forecast for the United States.

The FOMC statement goes even further in the next paragraph. "In determining whether it will be appropriate to raise the target range at its next meeting…" By singling out the 'next meeting" the FOMC is signaling to the market that December is a "Live" meeting and the market should not rule out an initial rate hike this year. The Fed funds futures market responded accordingly with the implied probability of a December rate hike rising to around 46.2%, up a whopping 12 percentage points from this morning. December 2015 remains our forecast for the first rate hike from the Fed. All it will take is a few more decent data points on the labor market and inflation for that forecast to become reality.

The market reaction was strong for a meeting with no visible interest rate action. 2-Yr Treasury bond yields increased more than 8 basis points today, while the 10-Yr Treasury yields jumped 5 basis points.   Stocks applauded the statement with the S&P 500 rising 0.6% on the day, perhaps relieved that the FOMC doesn't sees the economic sky-falling for the United States.

Bottom-line, the FOMC statement today was in-line with our thinking that the worst may be over of the U.S. economy, and deflationary pressure may soon start to subside. Central bank easing in China, Europe, and possibly Japan is likely seen by the FOMC as reducing the risk of global recession and giving them some room to move U.S. interest rates away from the zero bound. Now all we need is for the U.S. economic data between today and December to stick to the script the Fed has carefully prepared.