

# MARKET ANALYSIS

Ad-hoc research into market moving events from our in-house analysts



## FOMC July Meeting – What the banks are saying

**Goldman Sachs:** We do not expect any policy changes at the July FOMC meeting and expect only limited changes to the statement, which will likely upgrade the description of job growth, but might also recognize that inflation has declined further. We think the statement is also likely to acknowledge that the balance sheet announcement is now closer to hand, and we continue to expect the FOMC to announce the start of its balance sheet normalization in September.

**JPM:** We expect no change in the funds rate target and no change in balance sheet policy (we think there is a ~20% chance for the Fed to begin the balance sheet normalization process at the Jul meeting). The policy guidance will likely signal an inclination to begin the normalization process in Sept but we don't anticipate changes to the Fed Funds outlook. We expect the statement will sound more upbeat on the labor market, about similarly confident on growth, but more cautious on inflation.

**Morgan Stanley:** We expect the Fed to leave its interest rate target unchanged. The statement will likely indicate that the normalization of the central bank's balance sheet will begin relatively soon, solidifying expectations for a September announcement. The Fed will also make a benign update on conditions, by saying that the economy continued to expand at a moderate pace and that the labor market is still strengthening; the Fed should also say that inflation is running below its 2% goal. Weak inflation data will continue to be a thorn in the Fed's side for several months to come. The Fed will resume hiking rates in December.

**Deutsche Bank:** We do not expect the Fed to take any policy firming actions this week, partly because inflation has continued to surprise to the downside of late. In our view, policymakers will need to acknowledge the further decline in (PCE) inflation since the June meeting, but their medium-term view that inflation will return to target should remain unchanged. This would keep the door open for the Fed to begin its balance sheet normalization program as well as raise interest rates another 25 basis points by year-end. While it is possible that the Fed announces the former on Wednesday, we believe this holds a low probability. We continue to view the September meeting as the most likely timing for the Fed to announce the tapering of SOMA reinvestments, which would ostensibly begin in October.

**Barclays:** We expect the Fed to keep the target rate for the federal funds unchanged and expect few changes to the statement outside of balance sheet normalization. We believe the statement could point to an announcement on balance sheet policies at the September meeting. The risk to our view is that the FOMC announces its balance sheet normalization program at the July meeting since we believe the committee is eager to begin the process. That said, an announcement on balance sheet normalization in July would leave open the possibility of two additional rate hikes this year. This would likely send a more hawkish signal than warranted given the incoming data on activity and, in particular, inflation.

**SocGen:** We expect the Fed to announce the start of its balance sheet normalisation plan in September, but we acknowledge that it is a coin toss between this week's meeting and the next one. In any case, we do expect a tweak in the paragraph on the balance sheet that should confirm the market's expectation that the Fed will announce the shift in September.

**HSBC:** We expect the FOMC to leave the target range for the federal funds rate unchanged until December. We do not expect much change in the policy statement's assessment of current economic conditions or the economic outlook. We expect the FOMC to say that it expects to begin implementing a balance sheet normalisation programme "relatively soon," a change from the June policy statement that indicated the programme would begin "this year". This would allow the Committee to formally announce the start of disinvestment in September, for commencement in October. However, there is also the possibility that the FOMC could simply announce the change in balance sheet policy at the July meeting, for commencement in October.

**RBC:** This should be one of the more boring Fed releases in a while. There should be only modest adjustments to the characterization of the economic backdrop and we expect no change to the policy language. We think the announcement regarding the start of the balance sheet run-off comes at the September meeting when we also believe the committee will stand pat on rates (we expect the next hike in December).