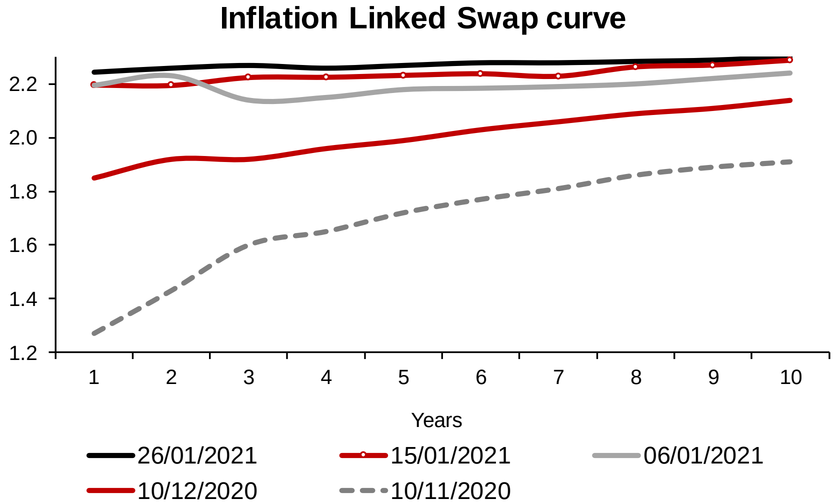
- **The January meeting was a very quiet one, as expected. The current stance and long-term strategy were reaffirmed.**
- **Risks to the economy are mostly in the short term and limited to the sectors most affected by the pandemics. Expectations of a rebound were confirmed.**
- **Fears of surging inflation were dismissed, as short-term volatility will be offset by the persistence of deflationary factors. Therefore, and given the still large level of unemployment, it is far too early to contemplate any tapering in asset purchases.**
- **The Fed does not appear worried about the strong equity prices nor sees any significant vulnerabilities in financial markets.**

Chair Powell used the January meeting to stress again that the Fed's job to sustain the recovery is not finished. Rates will remain near zero for a prolonged period and asset purchases will continue at the current pace. He strongly dismissed any possibility of a tapering anytime soon.
The press statement contained few changes (see comparison attached). The recent slowdown was duly noticed (see table at the end) as well as the fact that it is concentrated in few sectors. Moreover, any reference to the timeframe for the impact of the health crisis on the outlook was omitted. Risks are still considerable, Chair Powell clarified in the press conference, but are mostly in the near-term, and there is strong evidence of a stronger economy in the second part of the year. The statement of Longer-Run Goals and Monetary Policy Strategy was unchanged from the one published in August, which presented the new inflation targeting framework.

The fears of a spike in inflation shown by financial markets, on rising expectation of a pickup in domestic demand, were dismissed. During the spring base effect and pent up demand will drive inflation up by "a few tenths of percentage point", but the Fed expects this bump to be limited in size and duration. The significant disinflationary pressures hitting the global economy have not gone away with the pandemic.



Moreover, the Fed has now an extremely narrow focus on get employment back on track, with special attention to low skilled workers who need a particularly hot labour market. Any end to accommodation will have to wait until inflation stays moderately above 2% for some time and full employment is reached. Powell refrained again from providing any precise definition or formula. Fed's communication will ensure that market participant will not be caught by surprise when the FOMC decides that it is time to start removing accommodation.

Chair Powell downplayed the risks to financial stability too. Stock prices are high mostly as a reaction to positive news on vaccine and fiscal policy, the link with low rates is not as tight as commonly thought. Corporate leverage is not a burning issue, as defaults are lower than expected. The banking sector has withstood the crisis well; capitalisation is now higher than before the pandemics, but any talk of lifting restrictions on dividend pay-outs is premature. Regulatory and supervisory tools are available to prevent troubles and are the tools that the Fed will employ, as using instead interest rates would make things worse by harming the real economy. Risks to the nonbank part of the financial system (on which the Fed has limited oversight) do exists, and the Fed coordinates its action with other supervisors.

Variable	Previous FOMC meeting	Latest	Chg. Since Prev. Meeting
Real Activity			
GDP (% yoy)	-9.0	-2.8	6.2
Weekly activity index (scaled to yoy GDP)	-2.7	-1.7	1.0
ISM - Manuf	57.5	60.7	3.2
ISM - Services	55.9	57.2	1.3
Macro Surprises	77.5	78.2	0.7
Labor Market			
Payroll growth (3 mth. MA)	567	283	-284
Unemp. Rate	6.7	6.7	0.0
Unemp. Rate (broad)	12.0	11.7	-0.3
Hourly wages, % yoy (3 m. MA)	4.5	4.8	0.3
Prices			
Core CPI	1.6	1.6	0.0
Core PCE	1.4	1.4	0.0
Trimmed PCE	1.8	1.7	-0.1
U. Mich 5 yr exp.	2.5	2.7	0.2
NY Fed 3 Y exp.	2.8	3.0	0.2
5Y5Y fwd exp.	2.0	1.9	-0.1
Financial Conditions			
Chicago Fed index*	-0.62	-0.64	-0.01
10 yr. Treasury	0.92	1.04	0.12
- Risk neutral Component	1.30	1.24	-0.07
- Term Premium	-0.38	-0.20	0.19
Yield curve (10Y - 2Y)	0.80	0.92	0.12
S&P 500	3694.6	3849.6	4.2%
Trade Wighted Dollar	118.4	118.1	-0.3%
WTI Crude Oil	47.6	52.6	10.4%
* Decrease: looser conditions			

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