May FOMC Minutes: Some Time

- FOMC minutes stress "patience"; the word itself was mentioned nine times in the 11 pages of text. No mention of rate cuts
- Committee discussion reveals debate over whether or not low inflation is transitory or something more structural
- Talk of trade war largely absent; recall that this FOMC took place before latest intensification of US-China tension

“A patient approach to determining future adjustments to the target range for the federal funds rate would likely remain appropriate for some time."

It’s hard to infer any gray area in this assertion, found in the FOMC minutes for the May 1 meeting. The Fed remains on hold.

While a lot has happened in the markets since the May 1 FOMC, the Fed (at least three weeks ago) was content to stay patient while it pondered the nature of the current low inflation. There appeared to be some debate as to whether or not low inflation readings were simply transitory or something more chronic.

Members in the latter camp suggested that the danger of inflation staying below the Fed’s 2% target for too long could lead to perpetually low inflation expectations, anathema to a modern central bank’s operating strategy.

It’s noteworthy that the assessment of the Fed’s staff of professional forecasters indicated that inflation would stay lower for longer than many on the FOMC policymaking committee did.
Figure 1 shows that Core PCE has rarely – and only briefly – been above 2% since the global financial crisis ended nearly a decade ago.

**Figure 1: Core PCE Deflator**

![Chart Area]

2.5%
2.0%
1.5%
1.0%
0.5%
0.0%


- Core PCE yoy
- Fed target = 2%

**SOURCE: Bloomberg**

Nevertheless, in the short term, low inflation continues to allow the FOMC to remain patient on the path of future rates. The Fed’s consistent thinking since its initial turn dovish in January was that as long as downside risks (primarily from the global economic backdrop) remain, low inflation allows the Fed to be patient.

In fact, the minutes actually state: "even if global economic and financial conditions continued to improve, a patient approach would likely remain warranted, especially in an environment of continued moderate economic growth and muted inflation pressures".

That in a nutshell encapsulates the FOMC’s thinking, and to be fair, has been a consistent messaging point in nearly all of the public statement made by FOMC members since the May 1 meeting adjourned. (In reality, this message has been consistently repeated for many months now.)

Interestingly, direct mentions of any impact a deepening trade war might have on the outlook were largely absent. Of course, we should note that the May FOMC occurred a few days before a presidential tweet ushered in the latest intensification of trade tensions between the US and China.

Even so, in the intervening weeks, the multitude of Fed speakers have also been somewhat reticent regarding any effects trade acrimony would have on the policy outlook.

Given the “patient for some time” theme of the minutes, it’s not a surprise that an actual rate cut was under consideration anytime soon; the Fed has been consistent on this since Chair Powell’s press conference after the May 1 meeting: rates are just as likely to go up as they are to go down (and it seems that they are even more likely to stay where they are for the near future).
The market took the absence of rate cut language as a marginally hawkish (relative to expectations) signal, but again, we remind readers that this meeting took place before the trade war rhetoric reignited. Most of the market action pricing in rate cuts by December 2019 occurred after the FOMC met.

At the close of the day on Wednesday, DEC19 Federal Funds Futures are up about five basis points since the publication of the minutes and stand at 2.175, still implying a high probability assigned to a rate cut by year-end.

**Figure 2: December 2019 Federal Funds Futures implied yield**

![Figure 2: December 2019 Federal Funds Futures implied yield](source)

**SOURCE: Bloomberg**

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