



Fed Watch

June 24, 2009

Target rates and monetary easing levels are maintained

- Pace of economic contraction is slowing
- No changes to the securities purchase program
- Rates likely to remain low for a prolonged period of time

The FOMC decided to maintain its target interest rate at 0% to 0.25%. In light of data released during the intermeeting period, the FOMC acknowledged that the pace of economic contraction is slowing, citing the recent improvements in the financial markets, further signs of stabilization in household spending and better alignment of inventories with sales. The overall message is similar to that of the previous statement, stressing further signs of stabilization in the economy. Nevertheless, the committee expects economic activity to remain weak for some time, suggesting that there will be a prolonged period of weakness in the long-term.

In contrast to the committee's previous statement where it saw "some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term," it now expects inflation to "remain subdued for some time," which could indicate that the FOMC believes that deflationary pressures may have eased. Additionally, it mentioned that energy and commodity prices have risen recently. In light of this outlook, the FOMC continues to be confident that the fiscal and monetary stimuli along with policy action will result in "sustainable economic growth in a context of price stability."

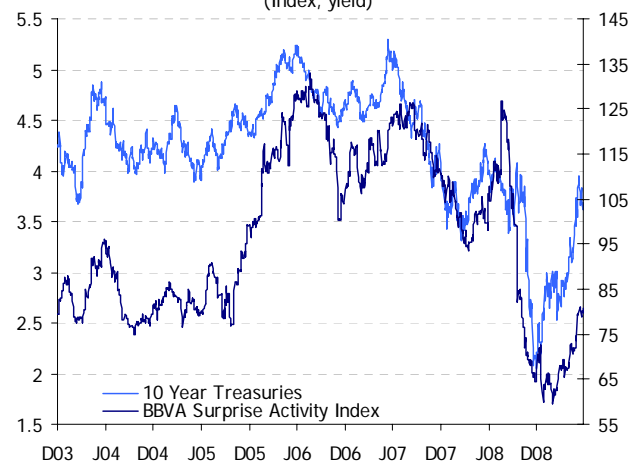
Nevertheless, the ongoing economic environment continues to warrant very low interest rates for a relatively long period of time. In addition, rather than announcing further measures to boost liquidity in financial markets, the Fed maintained the planned allocations for purchases of agency MBS, agency debt and Treasury securities announced in the previous meeting with the intention to evaluate the levels as the economic and financial outlook evolves.

Bottom-line: The main topic for which the FOMC adjusted its statement is inflation, which could imply that the committee sees fewer downward pressures. The message regarding the economic outlook continued to be positive, in line with recent economic indicators, leading to less of a need to increase the Fed's allocations for purchasing securities. Looking forward, we still believe that ample economic slack and a slow recovery will motivate the Fed to keep interest rates low for a prolonged period.

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Fed Funds: 0.0-0.25%
Minutes Release: July 15, 2009
Next Meeting: August 11-12, 2009

BBVA Surprise Activity Index vs. 10 Year Treasuries
 (Index, yield)



Fed Funds Expectations
 (Fed Funds futures, end of contract, %)

