

FOMC says economic contraction is slowing

The FOMC elected to hold rates unchanged as expected, to maintain the current level of bond purchases and said deflation is no longer a concern. The FOMC said interest rates would remain low for an extended period. The FOMC said that inflation is likely to remain subdued for some time and noted that the pace of the economic contraction has slowed. In the April policy statement the FOMC said the pace of economic contraction appeared to be somewhat slower. The FOMC did not discuss an exit strategy from quantitative ease. The vote to hold its target range unchanged at 0.00-0.25% was unanimous. The main difference in today's FOMC policy statement from the April statement is the change in language about the US economic contraction and the elimination of language of the risk of deflation. Today's FOMC statement may be a modest positive for the USD because of the Fed's improved outlook for the US economy and diminished concern about deflation. This will set the stage for an eventual tightening by the Fed when the FOMC determines that the US economy has recovered and that the recovery is sustainable.

By Michael J. Malpede,

Michael J. Malpede is Chief Market Analyst with Easy-Forex and has previously been featured on Bloomberg TV, Bloomberg radio, Reuters, MarketWatch, Wall Street Journal, Chicago Tribune, Chicago Sun Times, Toronto Star and Nikkei press. In analyzing the markets, he draws from 29 years of Foreign Exchange Research as a Foreign Exchange Analyst.

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