

# ESSENTIALS OF THE MONETARY POLICY

## Federal Reserve (Fed)

### The Fed Rolls Out the Heavy Artillery: A 100-Point Drop and at Least US\$700B in Securities Purchases

#### ACCORDING TO THE FED

- ▶ Sunday, the Committee decided to lower by 100 basis points the target range for the federal funds rate, to 0.00% to 0.25%.
- ▶ Over coming months, the Committee will increase its holdings of Treasury securities by at least US\$500B and its holdings of agency mortgage-backed securities by at least US\$200B.
- ▶ The Federal Reserve Board also announced a series of actions to support the flow of credit and the liquidity and stability of the banking system.
- ▶ The Fed with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank announced a coordinated action to enhance the provision of U.S. dollar liquidity.
- ▶ The Committee expects to maintain this target range until it is confident that the economy has weathered recent events. The Fed is prepared to use its full range of tools to support the flow of credit to households and businesses.
- ▶ The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States. Global financial conditions have also been significantly affected.

#### COMMENTS

The Fed clearly sees the COVID-19 epidemic as a real threat to the U.S. economy and the financial markets. It had already caught the markets by surprise on March 3 with a 50-basis point drop in its key rate. Yesterday, it struck again, this time with a force that it had never before used as quickly, and lowered its key rate by 100 points. In addition, it introduced an aggressive

US\$700B securities purchase program and a range of measures aimed at stabilizing the credit market. The surprise is even greater as the next meeting was scheduled to take place on Wednesday, March 18 to announce its monetary policy. It would seem that the Fed's leaders couldn't even wait 72 hours (yesterday's decision replaces this week's meeting). This decision would not have been made lightly. In this way, the Fed is demonstrating not only that it is concerned about COVID-19's impact on the economy and the markets, but also that it is ready to act to help the United States overcome this global problem.

Will the damage to the economy be that serious? It's too early to tell, and few economic indicators are posting a sharp decline for now. Everything will depend on how the disease evolves and on the policies currently in place or to be put in place to control its spread. Based on what's happening in other areas of the world, the actions aimed at limiting the pandemic are painful for an economy, and the markets are already feeling that pain. Furthermore, there's the impact on confidence and eventually the income of both businesses and individuals directly affected by the crisis. Therefore, real GDP is expected to plunge in the second quarter of 2020. That being said, the Fed is well aware of the high degree of uncertainty surrounding forecasts; it has decided to postpone the release of its own forecasts until June.

#### IMPLICATIONS

Yesterday, the Fed provided a boost by reacting aggressively to the COVID-19 crisis. Rates are now at a level considered to be the U.S. monetary policy floor, and the Fed is already eyeing massive securities purchases. It's hard to see what more it could possibly do in the very short term.

**Francis Généreux**, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist  
Francis Généreux, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

# Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
<b>February</b>			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
27	Bank of Korea	s.q.	1.25
<b>March</b>			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Bank of Brazil		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of England		
26	Bank of Mexico		
<b>April</b>			
7	Reserve Bank of Australia		
9	Bank of Korea		
15	Bank of Canada*		
28	Bank of Sweden		
28	Bank of Japan		
29	Federal Reserve		
30	European Central Bank		
<b>May</b>			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
<b>June</b>			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

Date	Central banks	Decision	Rate
<b>July</b>			
1	Bank of Sweden		
7	Reserve Bank of Australia		
15	Bank of Canada*		
16	European Central Bank		
16	Bank of Korea		
22	Bank of Japan		
29	Federal Reserve		
<b>August</b>			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
11	Reserve Bank of New Zealand		
13	Bank of Mexico		
20	Bank of Norway		
27	Bank of Korea		
<b>September</b>			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Japan		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
<b>October</b>			
5	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
29	European Central Bank		
29	Bank of Japan		
<b>November</b>			
2	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
26	Bank of Korea		
26	Bank of Sweden		
30	Reserve Bank of Australia		
<b>December</b>			
7	Bank of Mexico		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. \* Monetary Policy Report published.