

# Advisory Blog

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## Fed punts on tapering decision at latest meeting

By: Eric Stein, CFA | July 29, 2021

**Boston** - The latest meeting of the Federal Open Market Committee proved to be a "steady as she goes" affair. Without much new information forthcoming, the market appeared to view it at the margin as a modestly dovish signal from the Fed.

Yields popped initially but were flat to lower by the end of the trading day on July 28. Inflation expectations, as measured by the U.S. Treasury breakeven rate, moved slightly higher, and the U.S. dollar weakened.

Fed Chair Jerome Powell noted that the economy is making progress toward the twin goals of achieving "maximum employment and inflation at the rate of 2% over the longer run," but there is still some way to go with unemployment. Overall, he did not seem concerned about the Delta variant of the coronavirus and its potential for slowing growth, or the prospect of inflation increasing too much.

While Powell indicated the Fed would reassess the situation at coming meetings, it did not look like the start of tapering purchases of U.S. Treasuries or mortgage-backed securities (MBS) would be imminent. Those comments probably prompted the market's dovish reaction. Now it appears that a decision is more likely at the Fed's November or December meetings, rather than in September.

Powell also seemed to push back on earlier market speculation that the Fed might taper MBS ahead of Treasuries, as a way to take some steam out of the housing market. Instead, he indicated that tapering of both would proceed together, which is consistent with what we had heard from Fed officials previously.

### Repo facilities announced

Separately, the Fed also announced the establishment of two standing repurchase agreement (repo) facilities — a domestic standing repo facility (SRF) and a repo facility for foreign and international monetary authorities (FIMA repo facility). Repos are a common form of collateralized lending in the Treasury market. The Fed said these facilities will serve as backstops in money markets to support the effective implementation of monetary policy and smooth market functioning.

**Bottom line:** The Fed took no groundbreaking steps at its late July meeting, and most market participants seem to expect a decision on tapering to take place in November or December. That was viewed as a dovish signal, sparking a modest but notable turn lower for the U.S. dollar.



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