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DECISION ECONOMICS, INC.
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New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Pierre Ellis

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FOMC

The FOMC exerts a more muscular reallocation of the duration mix of its Treasury holdings than generally expected, and unexpectedly shifts back into credit allocation mode, redirecting principal repayments on mortgage-related securities to new purchases of such securities, instead of to the Treasury purchases conducted until now. There is no alteration to the IOER rate.

The economic assessment differs in only three main respects from the analysis as of the last meeting: 1)reference to temporary factors restraining growth is eliminated, effectively a downgrade since there is no more rebound effect looked for; 2)the judgment, made last time, that inflation "has moderated" is made a bit less certain, with the characterization changed to "appears to have moderated;" 3) the intensity of perceived downside risks is cranked up a bit, with the old view that they "have increased" replaced by a flat statement that "there are significant downside risks...including strains in global financial markets."

The latter addition is obviously significant, but probably the steps today are the completion of a program that the ardent doves, including Bernanke, actually wanted to implement at the last meeting. The modest shift in the general tone of the economic assessment does not in itself justify such bold steps--including the shift back into mortgage buying, which seems almost to be a poke of the thumb into the eye of the Republican Congressional leadership (Whose motivation, hopefully, is a bit less simple-minded and ham-handed than it seems).

Now the FOMC seems to have taken just about every step that it can, short of a QE3--with the IOER possibility apparently unacceptable. Presumably, there will be a waiting period now.

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