

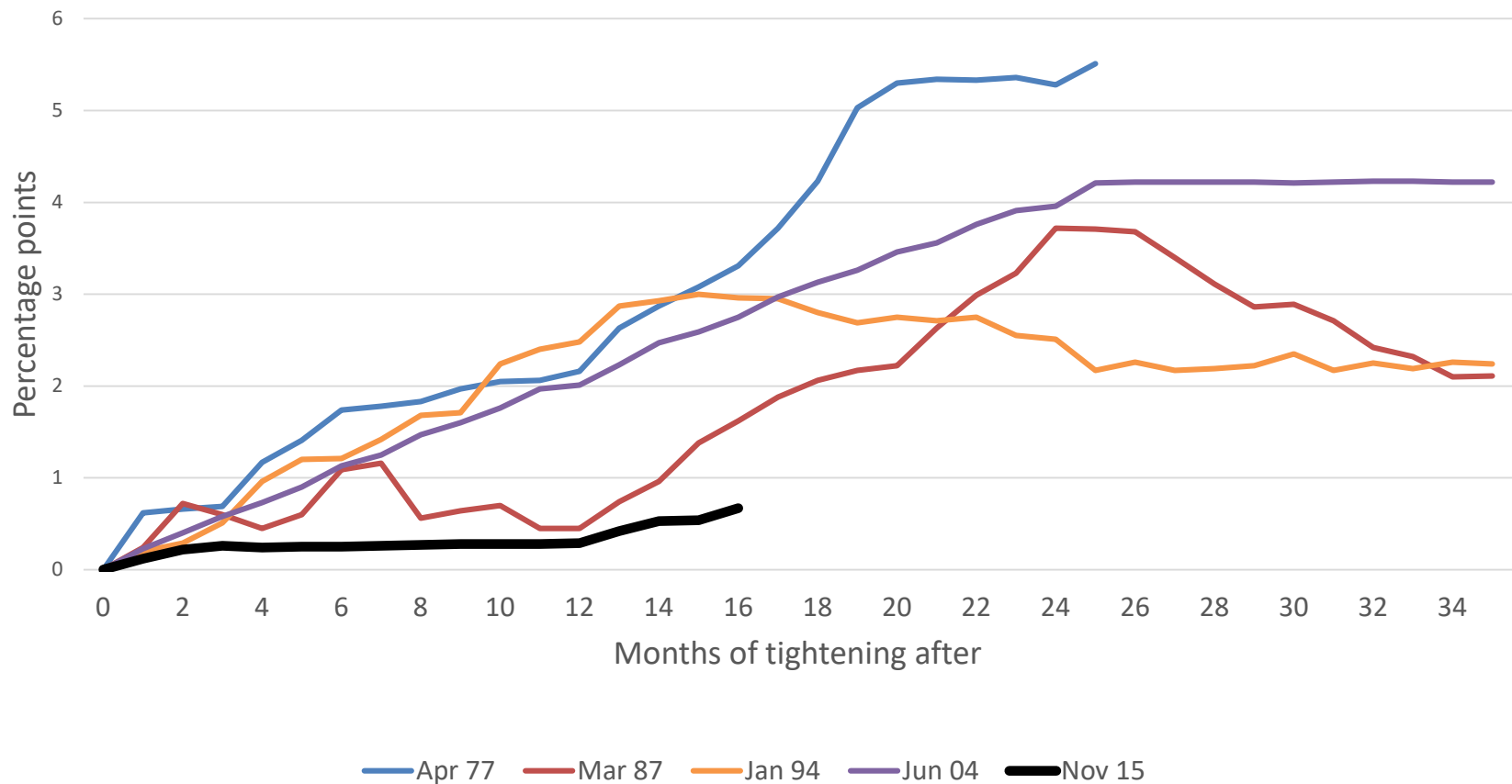
Outlook for Monetary Policy and Exchange Rates

Joseph E. Gagnon
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A Slow Tightening Cycle

Increase in federal funds rate from low point



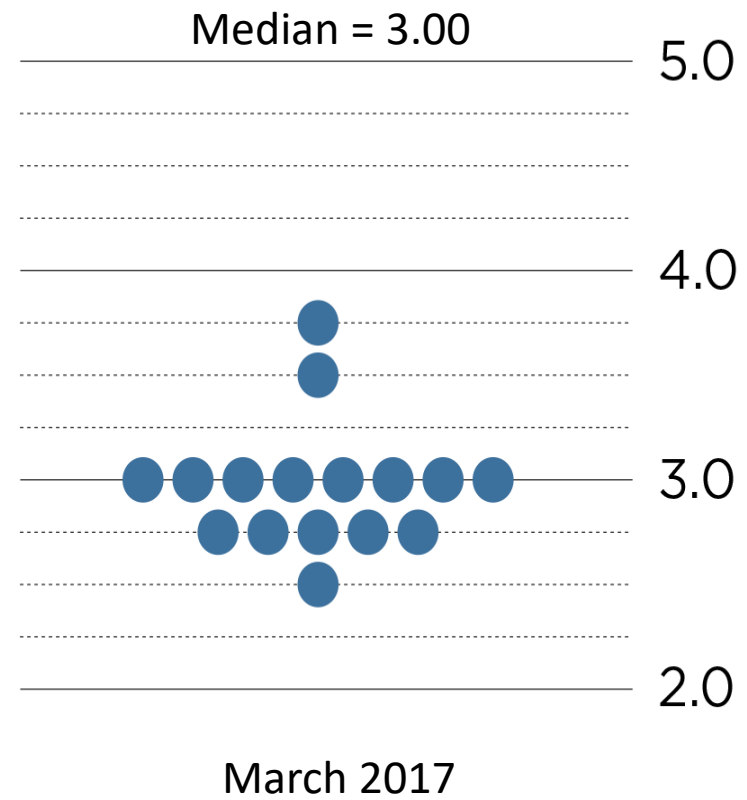
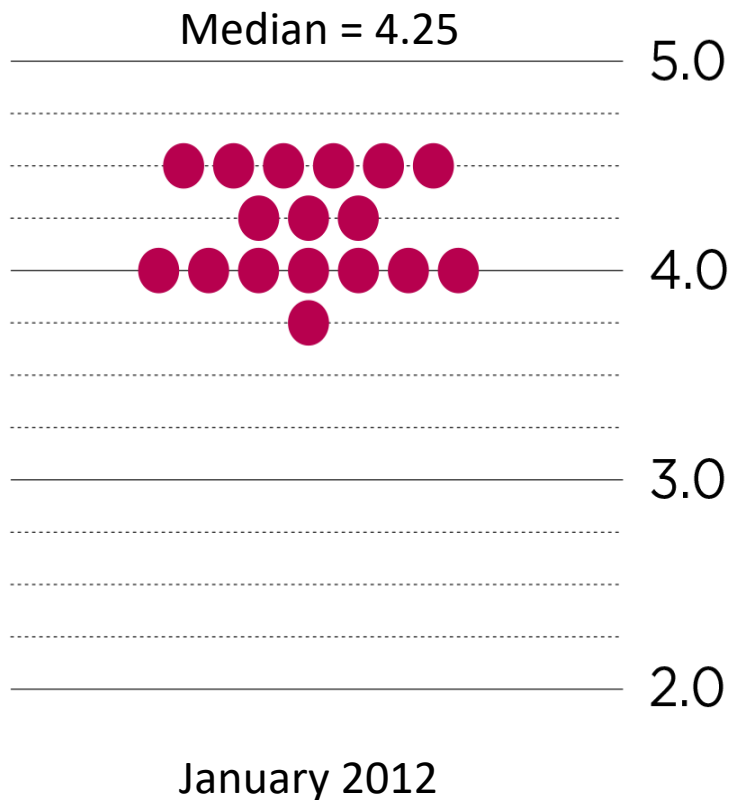


New Normal of Low Rates

- Secular stagnation?
- Low population growth
- Retirement saving
- Low productivity growth
- Global saving glut/FX policies
- Demand for safe assets



FOMC Participants' Forecasts of Long-Run Federal Funds Rate





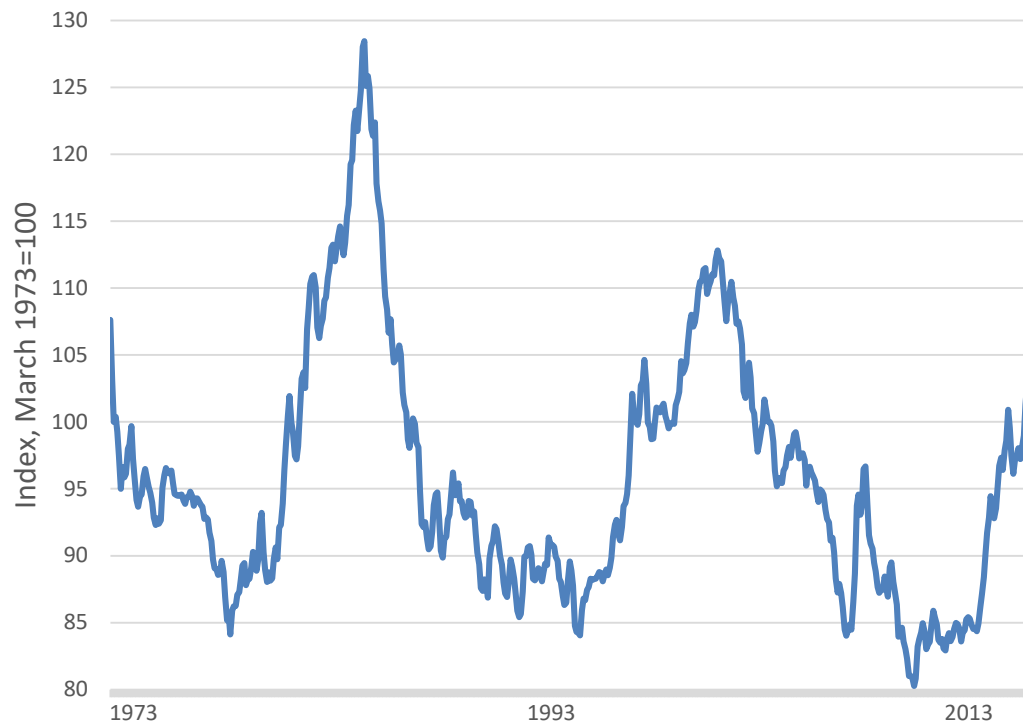
Fiscal Risk to Rates and Dollar

- Dave's fiscal projection may not be fully priced in by financial markets.
- Dollar appreciated 4 percent after US election.
 - Given back about half of those gains.
 - Market expectations about budget deficit may be a bit low.
- Could be an upside risk for bond yields and the dollar.
- Fed would have to accelerate tightening, but will not do so before budget is passed.

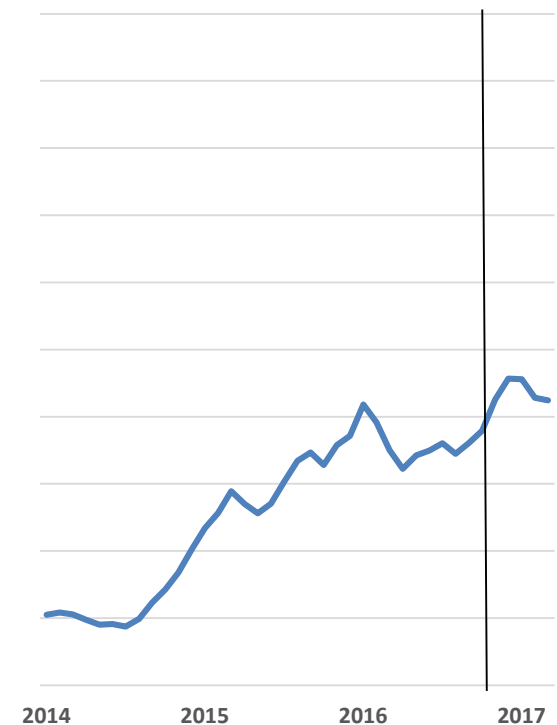


Strong Dollar, Room to Rise?

Real Trade-Weighted Dollar, Broad Index



January 1973 to March 2017



January 2014 to March 2017

Note: Vertical line denotes November election.

Source: Federal Reserve Board via Haver Analytics.



Foreign Exchange Policies

- In 2016, net official purchases of foreign exchange dropped to near zero.
 - A few countries remain significant net buyers while others have become net sellers.
- Concerns about emerging market vulnerabilities and the relatively strong US economy have driven private financial flows into the dollar.
- Dollar is still below previous peaks.
 - But rising trade deficit is a worry.