Federal Reserve FOMC Outlook- June 25, 2008

CUSTOM HOUSE

Today's Announcement

The US Federal Reserve's Federal Open Market Committee (FOMC) did the expected and held their target rate for the federal funds rate at 2.00% today. The market has interpreted the accompanying statement to be a bit on the dovish side, at least compared to expectations. Although a close examination and comparison of the June 25th statement to that, issued previously on April 30th, leaves one with the impression that the Fed has moved closer to adopting a tightening bias, it does not signal a clear cut move at this time. In essence, both the Dollar bulls and bears have been given something to hang their hopes on going forward. Or put another way, the Fed did a fine balancing act without saying anything remarkably new.

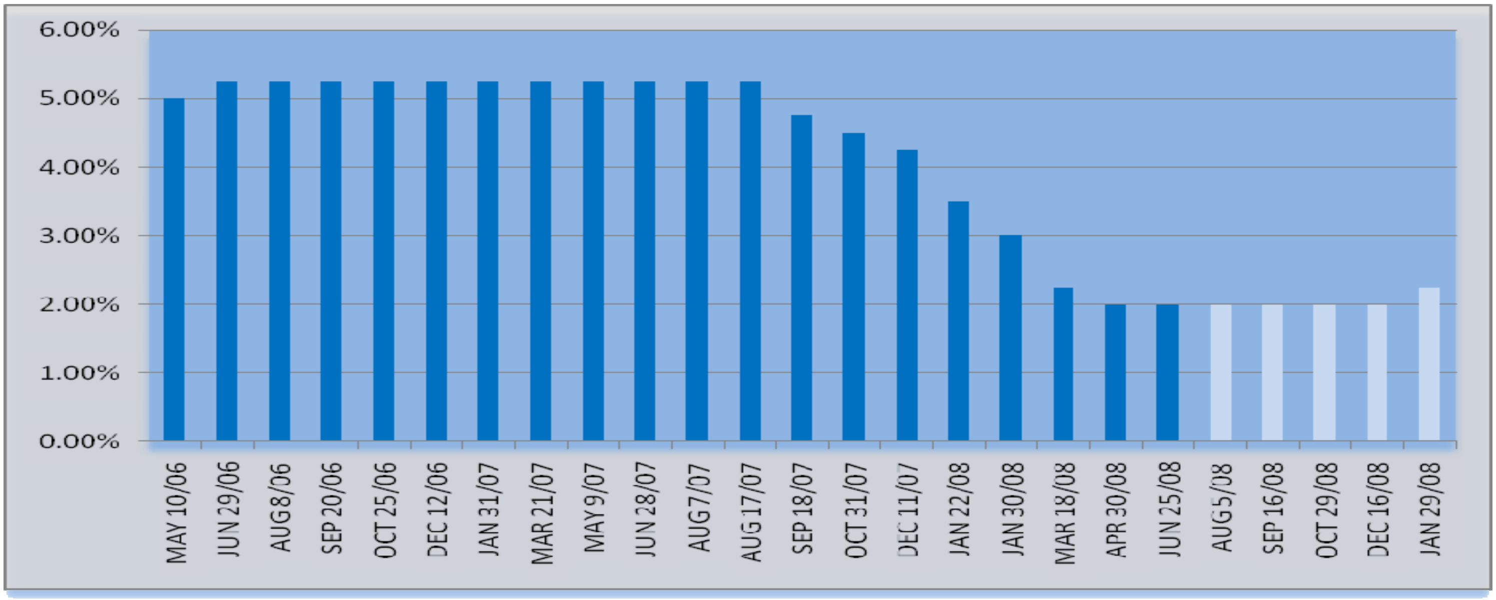
Comparison of Key Passages from April 30th and June 25th Statements

The first paragraph in both April and June indicated that labor markets were softening and that financial markets continue to be under stress. However, household spending and economic activity remained weak in the April statement while the June statement makes mention of the fact that "overall economic activity continues to expand, partly reflecting some firming in household spending," - no doubt supported by the issuance of the US Treasury's economic stimulus package. Dollar bulls take note here: the Fed appears to be confident that the US consumer, still the real engine of global economic growth, is on the mend.

On the inflation front, the Fed dropped the passage from the April statement that "it will be necessary to continue to monitor inflation developments carefully" but maintained its view that "uncertainty about the inflation outlook remains high." Commodity prices clearly remain the focus of Bernanke and company; they continue to hold the view that even a sideways move in energy prices will help to contain inflationary pressures going forward. The Dollar bears were paid on this statement, in that the market's consensus view, up to today, still held that the Fed would take a much tougher stance on inflation. A more dovish attitude towards inflation, therefore, means fewer rate increases at a slower pace, dampening the newly minted bullish sentiment on the Dollar.

In the final passage today the Dollar bulls received some relief with the statement that "although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased." To this point, the Fed has officially maintained that the upside risks to inflation and downside risks to growth were in balance and that the current level of monetary accommodation was consistent with maintaining that balance. Although Bernanke fails to go so far as to tip his hand with respect to the timing of future rate increases (due to the fact that they will probably be heavily data dependent), the Fed is clearly moving to more of an inflation-fighting bias in support of the price stability portion of its mandate.

Custom House forecast for the FOMC's target federal funds rate



For more information, please contact: Mark Frey, Vice President, FX Trading - Treasury
Tel: 250.220.1018 E-mail: mfrey@customhouse.com

For more information, please contact: Mark Frey, Vice President, FX Trading - Treasury
Tel: 250.220.1018 E-mail: mfrey@customhouse.com