



Instant view: Bernanke says more policy support possible

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NEW YORK (Reuters) - Federal Reserve Chairman Ben Bernanke said on Wednesday the central bank is ready to ease monetary policy further if the economy weakens and inflation moves lower, suggesting policymakers are actively mulling further stimulus.

KEY POINTS: * Bernanke specifically noted Fed forecasts for June, which were already revised down significantly from April, had not incorporated recent data, particularly last Friday's dismal employment report. That data showed job growth essentially grinding to a halt in the last two months, pushing the jobless rate up to 9.2 percent. * Minutes from the Fed's June meeting, released on Tuesday, showed some policymakers believe the Fed should stand ready to provide more support to the economy if the recovery flags, rekindling the threat of a debilitating downward spiral in prices and wages. * Others on the policy-setting Federal Open Market Committee, however, felt inflation risks might force the central bank to withdraw stimulus sooner than is currently anticipated.

COMMENTS:

BRIAN REYNOLDS, CHIEF MARKET STRATEGIST, WJB CAPITAL GROUP, NEW YORK:

"It's been a strange couple of weeks in that we've seen both panic and short-covering, resulting in a choppy, nervous market that has investors paralyzed because volume is anemic and people don't know what to do. That may have cumulated yesterday morning because we saw a panic over Italy, but it was a blink-and-miss-it panic. If this bailout does calm down the sovereign panic, we could have a tradable bottom. Bernanke's comments this morning add to that perception.

"If yesterday was the peak of panic, we could have some additional positive benefits from Bernanke's comments just from the fact that the Fed would do more if needed. We're in an extremely slow economic environment, there's some worry among investors that some stimulus may be needed."

JACK ABLIN, CHIEF INVESTMENT OFFICER, HARRIS PRIVATE BANK, CHICAGO:

"We suspected the Fed would come up with some sort of QE3 in light of the disturbance surrounding the sovereign debt markets.

"My initial reaction was QE3 here we come. They may continue on with selling some of their riskier assets, or corporate assets, and use that to buy Treasuries or some other government debt.

They may target certain securities. I don't think they are going to buy European debt or anything like that.

"It certainly could be a another boost to riskier assets for the next couple of quarters. It certainly bridges through year's end."

DANA SAPORTA, ECONOMIST, CREDIT SUISSE, NEW YORK:

"There is nothing too new here. The only news this week is the road map of an exit strategy, which is good news, but the current easy monetary policy will be on hold for a long time. We are not even looking for the suspension of reinvestments, which will not happen for many months from now.

"In general, Bernanke's testimony has not changed our view that monetary policy is on hold. The hurdle for a QE3 is too high right now, but if the European peripheral crisis intensifies, further policy accommodation might be considered."

DANIEL FLYNN, ANALYST, PFGBEST RESEARCH, CHICAGO:

"Ben Bernanke is pretty much confirming some of the things we saw in the minutes of the June meeting of the Fed released yesterday--that the Fed is not down to our last bullet...it still has ammunition to support the economy. At the moment, this is welcome news to the stock market. But in the oil markets, we are still waiting for the latest Energy Department inventory data for last week, which is tilting toward the bearish side. So it's hard to say at this point how the oil markets will fare with both issues being weighed."

BERNARD BAUMOHL, CHIEF GLOBAL ECONOMIST, ECONOMIC OUTLOOK GROUP, PRINCETON, N.J.:

"I don't think there's going to be anything radically new. The main point he will emphasize at this juncture is that it is still premature for the Fed to commit to QE3. He might hint that the only time the Fed would consider a third round of quantitative easing would be in the event that there is a substantial further deterioration in the job market or if the economy seems to be teetering on recession, or if we have a risk of deflation.

"The really more important point will come in the Q&A session. We'll see political parties jockeying for the best position possible to get Bernanke to take one side.

"Bernanke needs to stay away from specifics, but emphasize that failure to reach any agreement could result in catastrophe in the economy.

"The jobs report would be the best report card on the state of the economy. An economy cannot possible function properly without jobs. That's the most important number to watch out for the rest of the year.

"It remains to be seen how much worse it will get. Quantitative easing has not shown to be particularly effective."

JOHN KILDUFF, PARTNER AT HEDGE FUND AGAIN CAPITAL LLC, NEW YORK:

"Bernanke is clearly indicating that he and the Federal Reserve are well pleased with the recently concluded quantitative easing regime and they stand ready to do more.

"This should be supportive of commodity prices as we learned from QE2. The recent pullback supports the Fed's view that the price spikes were transitory and provides effective easing. I expect a QE3 sooner rather than later given the poor employment conditions in the U.S."

CARL LARRY, DIRECTOR OF ENERGY DERIVATIVES AND RESEARCH, BLUE OCEAN BROKERAGE, NEW YORK, NY

"I think that we are in a race to the bottom with the euro. This will lift oil prices as the dollar deflates. We have to keep an eye on more monetary stimulus, but that's not such a bad thing. Everyone will need extra credit to afford \$100 oil. The door (for more stimulus) is open a lot more than some expected. That closed door is now open and big draft is blowing in."

CHRIS RUPKEY, MANAGING DIRECTOR AND CHIEF FINANCIAL ECONOMIST, BANK OF TOKYO/MITSUBISHI UFJ, NEW YORK:

"Bernanke emphasized the economic soft patch is likely to be temporary. It sounds as if they think growth will snap back in the second half of the year. He also said various models of motor vehicles were in short supply due to supply disruptions connected to the Japan earthquake. The market likes it. The market wasn't thinking there would be any mention of QE3 whatsoever and here we're finding out QE3 is not being ruled out, depending on the outlook. It's a tantalizing headline, but it doesn't mean they will do it."

TOM PORCELLI, CHIEF US ECONOMIST, RBS CAPITAL MARKETS, NEW YORK

"I think its interesting that he leaves the door open to accommodation, but on the other hand he also says that they are prepared to respond if stimulus is needed. He's very much talking out of both sides of his mouth.

"The bottom line is that he has to say he will respond if needed, but it seems he's saying it more as lip service than anything because ultimately he still expects that this slowdown was temporary, so from that perspective it doesn't mean that he necessarily thinks that we need additional accommodation, he's just almost paying lip service to it from our perspective given his economic outlook."

DAVID SLOAN, ECONOMIST, IFR ECONOMICS, A UNIT OF THOMSON REUTERS:

"Fed Chairman Bernanke, in making his semi-annual testimony to the House, has suggested that there may be need for more monetary policy support, given the possibility of more persistent weakness than expected and possible return of deflationary risks, though he also notes the possibility of the economy evolving in a way that could warrant a move to less accommodation. His testimony appears consistent with the tone of yesterday's FOMC minutes, but given the tone of recent data, raises the dovish risks."

GENNADIY GOLDBERG, FIXED INCOME ANALYST, 4CAST INC., NEW YORK

"It seems that Bernanke's views are fairly consistent with the FOMC minutes released yesterday. It is unsurprising that Bernanke is not closing the door on further easing, but he does mention that the economy could evolve in a way that might not require it. I would note that there is likely to be an extraordinarily high bar for additional easing, with inflation trends having to start looking much weaker and the economy appearing to falter further."