

When Will The Fed Begin Raising The Fed Funds Rate?

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In its press release about its December 17th meeting, the Federal Open Market Committee ("FOMC") shifted its language about how long it will maintain the target Fed Funds Rate in the 0 to 1/4% range from "considerable time" to "it can be patient".

Most Fed watchers have been focused on the first increase in the Fed Funds Rate as the sign that the Fed has shifted from a loose policy stance to a tight policy stance. I suggest that the "Taper" that began in January of this year and the end of Quantitative Easing in October were the first phases in a type of monetary tightening that we haven't seen during our lifetimes and that the tightening everyone has been watching for has been hiding in plain sight throughout 2014.

That said, the Fed's shift in language is a sign that, for the time being, the Fed is committed to a tighter policy stance and a clue about when the next phase of tightening will begin. Based upon language used by the FOMC in the past, here is how the Fed's words translate into time:

"Considerable Time" = 6 – 10 months

"It Can Be Patient" = 2 – 5 months

"Measured Approach" = 1 month

Applying this translation to the current situation, it looks like the FOMC will start raising the Fed Funds Rate at its scheduled meeting in April of 2015. Of course, even though it is unlikely, the Fed could shift its language and policy

stance again between now and April. If it does, RealForecasts.com will provide an updated forecast based upon the new information. So, keep checking back with RealForecasts.com for the latest news about the Fed's actions and what they mean to investors in real assets.