

QE2 not working miracles, but Fed unlikely to roll it back

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The Federal Open Market Committee (FOMC) of the Federal Reserve, which meets next week, is unlikely to curtail its plan to buy \$600 billion of Treasury securities by June despite the stronger tone of the incoming economic data, research firm Capital Economics said in a note on Wednesday.

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Economist Paul Ashworth said that although a change in the FOMC voting membership will make the committee more hawkish, it will still see QE2 through to its planned conclusion.

However, Ashworth notes that the monetary committee is unlikely to extend the quantitative easing either.

Larry Downing / REUTERS

U.S. Secretary of Treasury Timothy Geithner and Chairman of the Federal Reserve Ben Bernanke (L) listen during the Financial Stability Oversight Council meeting to discuss the Volker Rule from the Dodd-Frank Act in Washington, January 18, 2011.

"The fiscal stimulus enacted late last year and the recent pick-up in economic growth made an immediate extension, in or before June, less likely anyway," he said. "The political backlash to the QE2 announcement has also reduced the odds of an expansion to the programme."

He also noted QE2 hasn't worked miracles for the economy.

"More than two months after the Fed announced it would buy \$600bn of Treasury securities, QE2 still doesn't appear to be having much impact."

Ashworth cautions that talk of another round of quantitative easing will rise if economic growth slows again in the second half of this year. He says the chances of a slowdown in growth is considerable as fiscal stimulus is due to fade.

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