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### Citrus Report

## What makes the Federal Reserve so special?

Why do we obsess about the Federal Reserve (Fed) even when it does not change its monetary policy for months? It is the world's most powerful central bank, and its benchmark interest rate impacts the valuations of major assets: from mortgage loans to business decisions and flows of global capital.

This is the first chapter in a mini-series about top US events – those we cover live for you at FXStreet.

**The Fed is unique in having two missions** (or mandates): price stability and full employment. Its central banks' peers are usually only responsible for inflation. It announces its decisions eight times per year. In

each meeting, the American bank releases a statement, and the Chair holds a press conference. Another unique characteristic is that the Fed is **careful not to surprise markets** with its decision. Members follow pricing and economists' expectations, and influence these forecasts with their speeches. Assets shake in response to the Fed's guidance about the next moves.

In every other meeting – March, June, September and December – the Washington-based institution also publishes forecasts. These projections, also known as the “dot plot,” convey messages to markets and tend to have a greater effect on the same. Traders obsess over any change in the numbers.

**The Fed Chair also has substantial influence** through his official press conferences, testimonies to Congress and speeches at conferences. In general, being worried about inflation signals a more hawkish policy than expressing concern about unemployment.

Fed decisions are so important that they usually result in limited price action for a day or even two days ahead of the announcement. The reaction is multifold: an initial knee-jerk response to the decision, an almost-instant retracement ahead of the Chair's presser, and then a more directional move once investors have reached a clear conclusion. In more cases than not, US Stocks rally.

However, various analysts then come in, and the narrative may change at the beginning of the Tokyo or London sessions. When US markets reopen on the following day, there is room for a completely different interpretation.

I hope I've managed to convey the importance and what makes these decisions unique. Next week, the Fed announces its last interest rate decision, and we'll cover it live.

S&P 500 and the Federal Funds Rate:

