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TRENDMACRO LIVE!

On the FOMC Statement

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The gyrations in the financial markets today following release of **the FOMC's** post-meeting statement attest to the confusion set off by a **Fed** endeavoring to wriggle out of the box in which it has put itself, in as inconspicuous a manner as possible. With today's statement, the Fed has done little more than acknowledge the obvious -- that its ill-advised pledge to remain "patient" in normalizing its hyper-accommodative stance, coming after committing to remain easy for a "considerable period," is no longer operable. But institutional imperatives dictate that a central bank that constructed a string of dubious, non-monetary rationalizations to justify overstaying its easy money posture cannot simply walk away from its erroneous assessment while keeping its credibility intact. Thus, even while abandoning its earlier excuses to keep funds at an unnaturally low 1%, the Fed was compelled to continue playing its inane word game, now offering that "policy accommodation can be removed at a pace that is likely to be measured."

Policy makers may have figured that this formulation would have a salutary effect by putting markets on notice that a policy change is coming, but that it's unlikely to be abrupt or disruptive. If so, they appear again to have misjudged the response. After settling down from their initial volatility, the most sensitive gauges were consistent in signaling that the Fed is putting itself further behind the inflation curve. A warning of a forthcoming tightening, if it were perceived as credible, would hit short maturity issues hardest, flattening the yield curve. Today, though, the curve steepened, with the 10-year down half a point, moving to its highest yield since last September at 4.56%. At about $393, gold held its gains of some $5, and the dollar fell by more than 1% against its major currency counterparts.

When all is said and done, though, our hunch is that today's exercise will be of fleeting significance in terms of the Fed's future course. In the interest rate futures markets, the bets on the pace of Fed rate hikes were largely unchanged, with the December contract inching closer to pricing for a 2% funds rate by year end. Whether that will be enough to quell the inflationary impulses now beginning to surface, however, remains much an open question. TM

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