TrendMacrolytics

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TRENDMACRO LIVE!

On the FOMC Meeting

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Hopes that **the Fed** was prepared to signal that it is poised to **pause in its rate-hiking campaign** were pretty well dashed with today's **FOMC statement**, as policymakers gave little sustenance to those betting that today's move to 5% would be the last, at least for awhile. No doubt responding to the contretemps over **Ben Bernanke's testimony** two weeks ago indicating that a break in the rate hikes could be in sight even if **inflation risks** are not entirely balanced, today's statement was more **hawkish** than many anticipated. The FOMC clearly established that "further policy firming" is likely unless the **economic data** turn toward a significant **cooling of growth**.

To be sure, it's not terribly difficult to read between the lines of the statement and discern that the Fed would like to be in a position where it could plausibly justify at least pausing in this exercise and, if at all possible, declaring victory and putting an end to the **tightening**. "Economic growth has been quite strong so far this year," the Fed says, but "growth is likely moderate to a more sustainable pace, partly reflecting a gradual cooling of the housing market and the lagged effects of the increases in interest rates and energy prices."

This is based on the Fed's internal forecast, which holds that after a near 5% growth rate in the first quarter, the economy is likely to slow toward a **"trend" growth rate** of about 3% which would, under the central bank's **demand-based model**, allows for an end to the rate hikes. We see it as unlikely, however, that any of the factors cited by the Fed as dampening growth are likely to do so sufficiently to put policy on hold. If anything, the bulk of data released thus far in the current quarter suggest the economy is accelerating. Thus, the Fed's customary preoccupation with "increases in resource utilization" will remain at the forefront of the policymaking process, making further rate moves increasingly likely.

We see it as all to the good that the FOMC is unwilling yet to indicate that it perceives that a change in course is warranted, as the signals from our **market-price model** manifestly indicate that policy has yet to reach **equilibrium**. It's important to recognize, though, that from our perspective the Fed is continuing to do the **right things for the wrong reasons**, which means the potential for damaging **policy error** can never be dismissed. In that regard, we note that though today's statement was marginally more hawkish than expected, **gold** reached a new 26 year high above $700 and the **dollar** continued to weaken. That could well be because the market saw the Fed, even as it was making all the right vigilant noises, longingly looking for an out. TM

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