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TRENDMACRO LIVE!

On the September FOMC

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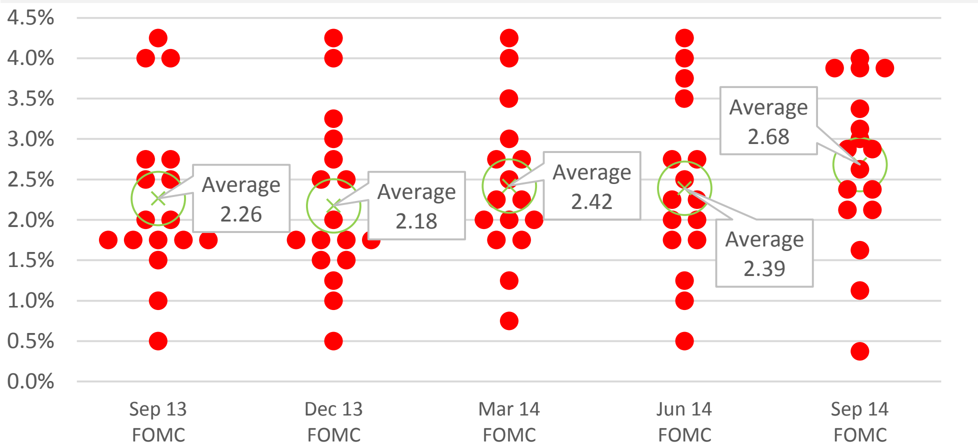
Dots and dissents be damned. The ultra-dovish "Yellen Rule" is completely intact.

There was a slightly hawkish tone to today's FOMC, with two hawkish dissents and a sharp uplift in the infamous "dots" that characterize committee member's projections of optimal policy rates (please see "Data Insights: Federal Reserve" September 17, 2014, and the chart below).

● FOMC participants' optimal policy: fed funds target year-end 2016



Source: FRB, TrendMacro calculations

But there's really only one transcendently important thing you need to know above all else about today's FOMC statement: there was no change whatsoever to the 38 words that embody what we call "the Yellen rule," repeated now verbatim for the fifth time, as they were in the March, April, June and July FOMC statements (below, with the critical policy intention called out in red).

> **The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.**

This is a profoundly dovish policy stance -- "dots" and dissents be damned. In essence, the Fed is committing in these 38 words to a below-normal funds rate even at mandate-consistent "maximum employment" -- say

Update to strategic view

US FED: Aggressive "dots" and two hawkish dissents. But really there were no fundamental changes today to the extremely dovish "Yellen Rule" that dominates the future of policy: the 38 words describing her long-term vision were repeated today verbatim for the fifth time. And the "considerable time" language from LSAP conclusion to breaching the zero-bound was unchanged. A new policy document on "normalization" states that re-investment in the Fed's portfolio will cease "after" rates rise above zero -- and that MBS will never be sold outright, suggesting that Treasuries could be.

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3.8% unemployment -- and "stable prices" -- say 3% core PCE inflation, given the elite policy consensus toward "optimal control." Such macroeconomic conditions would have made any other Fed start tightening -- the Yellen Fed, under those conditions, will avowedly still be loose (see "The Yellen Rule is Taylor Minus Two" May 19, 2014).

There was also no change to the "considerable time" language used to characterize the hiatus between the conclusion of Large Scale Asset Purchases (LSAPs) and the first rate hike above zero. The amount of LSAPs was reduced again today, as it has been at every FOMC since last December (see "On the December FOMC" December 18, 2013). Today's statement was definitive that purchases will end entirely at the October 29 meeting -- which likely means that a final $5 billion of Treasuries will be purchased in November.

- In new Fed Chair Janet Yellen's first post-FOMC press conference in March, she blurted out in response to a question about the meaning of "considerable time" that "you know, it probably means something on the order of around six months or that type of thing."
- *Yellen doesn't like to be wrong* (see "Yellen and Screamin' at the Fed" December 5, 2013)*, and in this matter she has the power to make herself right. That means, all else equal, that the first rate hike above the zero-bound will be executed at the June 2015 FOMC meeting.*

The FOMC also released today a separate statement on "Policy Normalization Principles and Plans", making official the substantial hints given in the minutes of the July FOMC.

- Notably, the new statement affirms that reinvestment of principle and interest payments on the Fed's portfolio securities will cease "after" the policy rate target has begun to be increased.
- And the statement affirms that securities in the Fed's MBS portfolio will not be sold in open market, but rather will be allowed to run off over time.
- Oddly, the statement is silent as to whether the Fed would sell its long-term Treasury securities. Presumably this means it would, given the specific disavowal of MBS sales.

Bottom line

Aggressive "dots" and two hawkish dissents. But really there were no fundamental changes today to the extremely dovish "Yellen Rule" that dominates the future of policy: the 38 words describing her long-term vision were repeated today verbatim for the fifth time. And the "considerable time" language from LSAP conclusion to breaching the zero-bound was unchanged. A new policy document on "normalization" states that re-investment in the Fed's portfolio will cease "after" rates rise above zero -- and that MBS will never be sold outright, suggesting that Treasuries could be.

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