

FED SHADOW

"Patient" is a Virtue

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Will she or won't she? Our FOMC language sweepstakes entry: Yellen will keep the word in.

Let's set aside for a moment whether or not it even matters whether or not the word "patient" is dropped from the statement language at this week's FOMC meeting. First, we'll weigh in with a prediction. *We predict the word stays. Yet we still think "liftoff" happens in June.*

- Fed Chair Janet Yellen's most recent statement about it was in [testimony](#) before congress three weeks ago, when she said that the first fed funds rate hike from the zero bound could come "at any meeting" following removal of the word "patient" from the FOMC statement (see ["On Yellen's Senate Testimony"](#) February 24, 2015).
- This was a calculated choice of words, made in prepared remarks, which differed from her more spontaneous statement about it two months prior. Answering a reporter's question at the [press conference](#) following last December's FOMC, when the word "patient" was first introduced, she had said liftoff wouldn't come for "at least the next couple of meetings" after removal of the word (see ["On the December FOMC"](#) December 17, 2014).
- Consider this change in language in light of what we presume is Yellen's preference to announce liftoff at an FOMC meeting with a scheduled press conference. This week's meeting is one of those, and so is June's -- April's is not.
- *Under the prior "at least the next couple meetings" language, if Yellen had the June meeting in mind for liftoff, she would have had to remove "patient" this week.*
- *The new "any meeting" guidance allows here to wait until April's FOMC meeting to remove "patient," while still targeting June for liftoff.*
- We do think she has June in mind. She always has. Remember, at her [first press conference](#) as Fed chair one year ago she blurted out that the first hike would come after the end of asset purchases by "around six months or that type of thing" (see ["On the March FOMC"](#) March 19, 2014). Indeed, all the way back in September 2013, at the [announcement](#) of QE3, when Yellen was chair of the FOMC's Communications Subcommittee, she concocted the guidance that rates would stay at zero "at least through mid-2015" (see ["On the September FOMC"](#) September 13, 2012).
- But she doesn't want to commit to June this week. That would risk

Update to strategic view

US FED, FX: The "patient" language stays in this week. The Fed is still on track for liftoff in June, but doesn't want to pre-commit to it now by removing "patient" while so much uncertainly surrounds the US dollar rally. All else equal, "patient" comes out at the April FOMC, and then liftoff can follow "at any meeting" -- which means June, when there is a scheduled press conference to help markets digest it.

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further unsettling markets already supposedly [in a "patient panic."](#) To be sure, at some point markets are going to have to learn to live with liftoff. But at this exact moment, Yellen herself is probably a little unsettled by the US dollar rally that began in last year's fourth quarter and has accelerated in this year's first. Her silence on the subject should not be mistaken for unconcern -- it is considered rude in Washington for the Federal Reserve to opine on foreign exchange issues, traditionally the prerogative of Treasury.

- Keeping "patient" in the guidance language this week keeps Yellen's options open. She can still have liftoff in June -- when there's a press conference scheduled to help markets live with it -- by taking out "patient" at the April meeting, now that she's conditioned the market to understand that liftoff can come "at any meeting" afterwards.
- We are very cautious about the intermediate-term outlook -- with S&P 500 forward earnings having rolled over last October and equity valuations at 11-year highs (see "[Houston, You're the Problem](#)" March 9, 2015). The dollar does not play any particular role in our caution. We have been telling clients it is a side-effect of the sharp drop in oil prices, much as Yellen herself hinted at the [December FOMC press conference](#). While a strong dollar is a challenge for US multinationals, it is surely a net win for the US economy overall -- after all, we remain a substantial net importer, with a monthly trade deficit exceeding \$40 billion.
- But as with the sudden large drop in oil prices, the sudden large appreciation of the dollar creates winners and losers around the world (see "[Oilageddon](#)" December 16, 2014). And one never knows when one of the losers will turn out to be patient-zero for a new round of financial contagion.
- We understand Yellen's caution -- she may worry both that the dollar has gotten too strong too fast, and may accept the [dominant narrative](#), that she herself is causing it by the Fed's being the only major central bank not currently getting easier and easier.
- *Putting it all together, we conclude that Yellen wants to keep her options open -- June would be an ideal time for liftoff, but April would be a more ideal time than this week to commit to it.*

Now -- does it matter? We haven't changed our view on that. Let us repeat the point we made last week: objectively it probably doesn't matter, subjectively it probably does (again, see "[Houston, You're the Problem](#)"). In other words, the only risk is that markets mistakenly think that what will in fact only be a very tentative experiment is, instead, the opening move in a determined tightening regime.

Bottom line

The "patient" language stays in this week. The Fed is still on track for liftoff in June, but doesn't want to pre-commit to it now by removing "patient" while so much uncertainly surrounds the US dollar rally. All else equal, "patient" comes out at the April FOMC, and then liftoff can follow "at any meeting" -- which means June, when there is a scheduled press conference to help markets digest it. ▶

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