

TRENDMACRO LIVE!

## On the March FOMC

Wednesday, March 15, 2017

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### A dovish dissent from Kashkari, preening for Yellen's job. The longer-run "dots" don't move.

The markets' immediate reaction to [today's FOMC statement](#) was positive, as though it were somehow a dovish surprise. The key "tell" is the post-meeting shift in the yield curve to take about one-half of a rate hike out of expectations for three years forward, despite a similar move in the opposite direction for the "dots" for 2019 (see ["Data Insights: Federal Reserve"](#) March 15, 2017).

- Perhaps the catalyst was the dissent of Minneapolis Fed President Neel Kashkari, who preferred no rate hike. It was the first dissent since November, and the first dovish dissent since December 2014.
- It is widely believed that Kashkari has his eye on the Fed chairmanship when Yellen's term is up next year. It might be that his informed belief is that President Trump would prefer a dove.
- *More likely, while the funds rate "dots" all moved up a little for 2017, 2018 and 2019, the longer-run "dots" didn't move at all.*
- *We believe that the Fed is now guided primarily by its estimate where the "natural rate of interest" or the "neutral interest rate" or "r-star" is – so no uptick in what is surely a proxy for the FOMC's long-term estimate of that concept indicates no immediate belief that the path of rate hikes has to be any less gradual than before.*
- We had thought that the neutral rate of interest might be mentioned, for the first time ever, in today's FOMC statement – with Yellen having mentioned it 14 times in [her speech ten days ago](#) (see ["Yellen's March to Neutrality"](#) March 6, 2017). It was not.
- [In the post-meeting press conference](#) Yellen noted that, with the neutral rate at about "zero in real terms," the policy rate "doesn't have to rise that much to get to a neutral policy stance."

### Bottom line

Markets reacted to today's FOMC as though it were a dovish surprise. Perhaps it was Kashkari's dovish dissent, the first since 2014. As a possible successor to Yellen, he may be reflecting informed belief that Trump wishes to appoint a dove next year. The longer run "dots" didn't move at all, reflecting no upgrade in the FOMC's estimate of its key benchmark, the neutral rate of interest. This keeps the path of hikes on a gradual and cautious trajectory. ▶

#### Update to strategic view

##### US FED, US MACRO:

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