

TRENDMACRO LIVE!

On the September FOMC

Wednesday, September 18, 2019

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The worst of the “heightened uncertainties” is that the Fed is more at sea than ever.

The Fed did the right thing by cutting rates, because the evidence of the yield curve is unmistakable: it has been too tight (see [“Trump Wants to Cut Interest Rates. Powell Should Do It Anyway.”](#) June 4, 2019). After today’s FOMC, the most critical curve – the spread between the funds rate and the 10-year Treasury yield – widened, both because the funds rate was cut 25 basis points and because, as of this writing, 10-year yields backed up by 6 bp following [today’s substantially unchanged post-meeting statement](#). We suppose that’s a good sign, if a small one. At least there were no major gaffes or other mis-steps this time.

- What’s so frustrating is how intellectually at sea the FOMC appears to be – there is no consensus as to where to go, or why – or for that matter, no consensus even about where we are now, except the usual consensus that the Fed can never admit it has been wrong. Indeed, today there were not just two dissenting votes on the hawkish side, as last month, but a third dissent on the dovish side.
- So while the statement continued to speak to “uncertainty” as the watchword – and in the post-meeting press conference, Chair Jerome Powell said these were now “heightened” compared to the last meeting – the “dot plots” show no further rate cuts in the future, just as they did not at the June meeting (see [“On the June FOMC”](#) June 19, 2019). The “dots” only moved down to reflect July’s and today’s s cuts – neither of which showed in June’s dots” – nothing more (see [“Data Insights: Federal Reserve”](#) September 18, 2019).
- Unlike in July, when a 50 bp rate cut was the “whisper number” and the Fed disappointed with only 25 (see [“On the July FOMC”](#) July 31, 2019), this time there was no “whisper number,” nor any disappointment. Except that, once again, the Powell Fed refuses to surprise on the upside. You can say it’s inappropriate for the president to make such comments, but we can’t disagree with Donald J. Trump’s [post-FOMC tweet](#): “Fail Again.”
- In this case, it is clear to us that what markets want to hear is some version of “whatever it takes” in the face of daunting risks and some soft numbers, such as August’s jobs report (see [“On Draghi in London”](#) July 26, 2012, and [“On the August Jobs Report”](#) September 6, 2019).
- Speaking for markets, we think, the reporter who asked the very first question in today’s press conference gave Powell the

Update to strategic view

US FED, US MACRO: A rate cut that meets expectations, an unchanged FOMC statement, and three dissents – two hawkish and one dovish – that show the Fed more at sea than ever. For all the talk of “uncertainties” that Powell says have “heightened” since the July FOMC, the “dot plots” show no further cuts after today’s. There was no 50 bp “whisper number” for today, so no disappointment like July’s. But the disappointment is that Powell’s Fed always disappoints. It never gets ahead of the curve, never shows leadership. For all the FOMC’s talk of “uncertainties,” this is one of the worst.

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Donald J. Trump [@realDonaldTrump](#) · 38m
Jay Powell and the Federal Reserve Fail Again. No “guts,” no sense, no vision! A terrible communicator!

opportunity to undo his July gaffe about that rate cut being only a “mid-cycle adjustment,” implying one-and-done. That was a softball for Powell, and he didn't really get a piece of it – he only indicated that if things got worse, the Fed would respond. What the market wants to hear is that the Fed has a pro-active agenda to get ahead of the curve and keep things from getting worse in the first place.

- Sadly, such an agenda cannot emerge from this divided FOMC without strong intellectual leadership, and in the realm of economics, attorney and private equity executive Jerome Powell just doesn't have what it takes to lead. That's no indictment of his qualities as a human being. He's just not up to this particular job.
- We have said many times he is a terrible communicator, as Trump tweeted this afternoon. But the real issue may be not be communication skills. He may simply not know what to say.
- That leaves the markets, like the FOMC, without the leadership a strong Fed chair can provide. For all the Fed's own talk about “uncertainties,” this uncertainty may be the worst of all.

Bottom line

US FED, US MACRO: A rate cut that meets expectations, an unchanged FOMC statement, and three dissents – two hawkish and one dovish – that show the Fed more at sea than ever. For all the talk of “uncertainties” that Powell says have “heightened” since the July FOMC, the “dot plots” show no further cuts after today's. There was no 50 bp “whisper number” for today, so no disappointment like July's. But the disappointment is that Powell's Fed always disappoints. It never gets ahead of the curve, never shows leadership. For all the FOMC's talk of “uncertainties,” this is one of the worst. ▶