

TRENDMACRO LIVE!

On the September FOMC

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Growth downgraded, but taper still on for November. And Powell has stopped beating his wife.

We had two big questions coming into the September FOMC.

Would [today's FOMC statement](#) acknowledge the Delta variant-driven growth scare that has materialized late in this quarter (see ["On the August Jobs Report"](#) September 3, 2021), and push back expectations for the start of tapering asset purchases at the November meeting (see ["On Powell at Jackson Hole \(Virtually\)"](#) August 27, 2021)?

- Nope. The statement didn't mention any slowdown at all. Yet it's the first thing Chair Jerome Powell mentioned in the post-meeting press conference, and it resulted in marking down 2021 GDP growth expectations in the [Summary of Economic Projections](#) to 5.9% compared to 7% in the [June SEP meeting](#) (see ["Data Insights: Federal Reserve"](#) September 22, 2021).
- And nope. The statement said nothing to indicate a later onset to tapering – in fact, it's gone from "in coming meetings" to "may soon be warranted." Indeed, in the press conference, Powell said that committee discussions suggested that tapering would be complete by "the middle of next year," which surely means it starts in November.
- At the same time, the SEP ever-so-slightly nudged up the "dot plot" projection for the funds rate by the end of 2022. The median rose from 0.125% to 0.26%. To be clear, with the mid-point of the target now at 0.125%, a move to 0.26% means one half of a rate hike five quarters out.
- We'll deal with the lift-off from the effective lower bound on rates when the time comes. But as to tapering, as we've said so many times, it simply doesn't matter one way or the other at this point. The Fed's asset purchases amount to nothing but a de-risking operation, drawing onto its own balance sheet duration, prepayment and credit risk from the private sector's balance sheet. This matters tremendously in moments of crisis such as early 2009 and mid-2020, when markets were temporarily pathologically risk-averse. Now markets are fully risk-tolerant, so asset purchases just don't matter. We were delighted when Powell said the very same thing himself in the press conference: "its usefulness is much less today than at the beginning."

Update to strategic view

FEDERAL RESERVE, US MACRO: The recent softness in growth was not acknowledged at all in the FOMC statement, and has done nothing to delay tapering asset purchases. Indeed the statement language changes make November onset all the more likely. Powell indicated that tapering could be complete by the middle of next year. The "dot plots" for 2022 are now building in one half of a rate hike, compared to none at all in the June projections. Powell got three tough questions about securities trading by Kaplan and Rosengren, and his own holding of municipal bonds when he created the Municipal Liquidity Facility last year. These scandals have been promoted by "progressives" in Congress who oppose Powell, who enjoys broad support among "moderate" Democrats and most Republicans. He answered as well as he could, and we continue to expect him to be renominated – as we believe the market does too..

[\[Strategy dashboard\]](#)

Our second big question was how Powell would respond to the inevitable zingers from journalists about the large-scale trading activity of Dallas Fed President Robert Kaplan and Boston Fed President Eric Rosengren – and [his own ownership of municipal bonds](#) at the time, last year during the worst of the pandemic turbulence, that he directed the Fed to buy such securities for the first time in its history.

- “Progressives” in Congress are opposing Powell’s renomination next year, seeking someone more committed to heavy bank regulation, income equality and climate awareness. These opponents of Powell’s are quite skilled at mobilizing journalists to make the most of any hint of scandal.
- The first “have you stopped beating your wife” question was whether Powell was aware of Kaplan’s and Rosengren’s trading. He looks corrupt if he was aware, and incompetent if he wasn’t. Of course he chose incompetent, the lesser of the evils, saying he was not aware. He had to deal with that same gotcha again toward the end of the press conference.
- The immediate follow-up question from another journalist was about Powell’s conflict of interest in ordering the creation of the [Municipal Liquidity Facility](#) last year. Powell answered confidently and pragmatically that he and his wife have owned munis for decades, and when the emergency was upon him last year, he had to step in decisively and he did so with eyes open (having obtained an ethics ruling in advance from the Fed’s counsel).
- Our sense is that he handled the matter quite well. His renomination – which we think the markets both expect and want – is just like every other big policy decision now: an internecine food-fight between “progressive” and “moderate” Democrats (Republicans generally support him). It doesn’t feel to us like these little non-scandals are going to have much impact. We continue to expect Powell to be renominated.

Bottom line

The recent softness in growth was not acknowledged at all in the FOMC statement, and has done nothing to delay tapering asset purchases. Indeed the statement language changes make November onset all the more likely. Powell indicated that tapering could be complete by the middle of next year. The “dot plots” for 2022 are now building in one half of a rate hike, compared to none at all in the June projections. Powell got three tough questions about securities trading by Kaplan and Rosengren, and his own holding of municipal bonds when he created the Municipal Liquidity Facility last year. These scandals have been promoted by “progressives” in Congress who oppose Powell, who enjoys broad support among “moderate” Democrats and most Republicans. He answered as well as he could, and we continue to expect him to be renominated – as we believe the market does too. ▶

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