Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the September FOMC

Wednesday, September 20, 2023
Donald Luskin

The Fed found a way to make one-and-done sound like bad news.

There was never any question that there was going to be anything other than a "skip" or a "pause" or whatever you want to call it when the FOMC doesn't hike rates. So *the news in today's FOMC is the year-end 2023 "dot plot"* from the [Summary of Economic Projections]: the committee's assessment of the "appropriate policy path" for the funds rate (please see the chart on the following page). *The dot was left at 5-5/8%, where it had been set at [the previous SEP at the June FOMC]: with year-end only two FOMC meetings away, this would seem to promise one more rate hike across the November and December policy meetings*.

- It was just a couple weeks ago that Governor Christopher Waller – a consistent and serious-minded hawk – [said], "There is nothing that is saying we need to do anything imminent anytime soon…We can just sit there and wait for the data."
- So with no hike today, *one more dot-implied hike at either November or December, would seem to be predicting that inflationary data that doesn't exist today will pop-up over the next three months*. So the year-end 2023 dot at 5-5/8% would seem to imply that *the Fed isn't*

[Generative AI token]: "We don't know where to put the December 2023 dot because we will be wrong no matter what we do."

Source: [DreamStudio] running SDFX Beta

Update to strategic view

FEDERAL RESERVE, US MACRO: Leaving the "dot" for year-end 2023 at 5-5/8%, the Fed has effectively announced that one-and-done is now a worst-case scenario. But apparently to prevent market exuberance, the FOMC sharply moved up the dot for 2024 to suggest that the funds rate will stay at an admittedly restrictive level longer than previously expected. The cover story is an upgrade to growth expectations – but the actual forecasts are so tepid they couldn't possibly contribute to inflation risk, even within the Fed's flawed analytic framework. As of this writing markets are not taking the Fed's guidance seriously, with little more than a 50/50 chance of a hike by December.

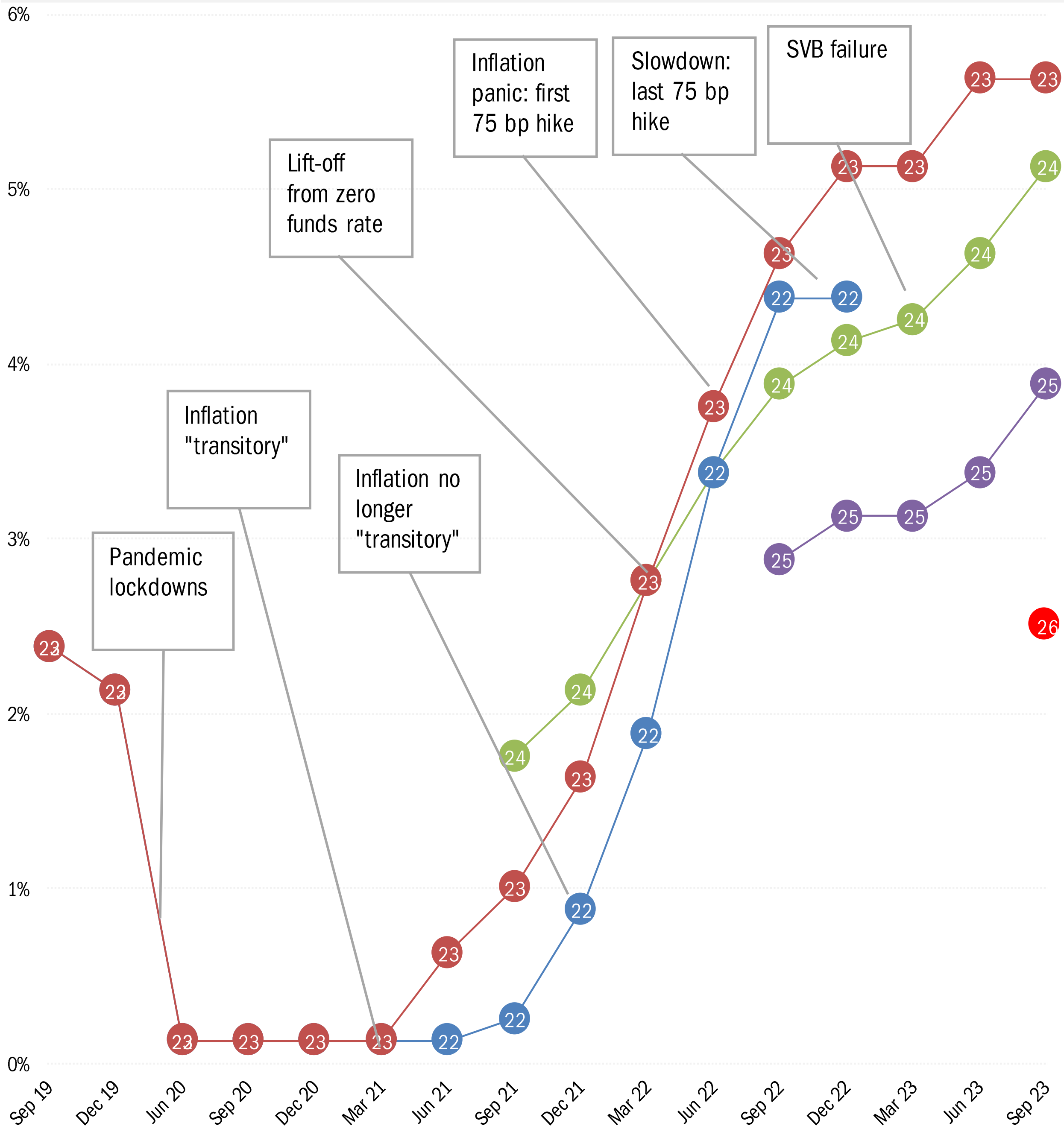
[Strategy dashboard]

“data-dependent” at all – it is, effectively, presupposing the data.

- Is it like the [Tom Cruise science fiction movie *Minority Report*] in which the police predict crimes you haven’t committed yet and arrest you before you commit them?
- Maybe. *But the real news here is that the FOMC just told us pretty much flat out that it’s one-and-done by year end, at worst.*

But this Fed likes to keep markets on tenterhooks. So it is probably

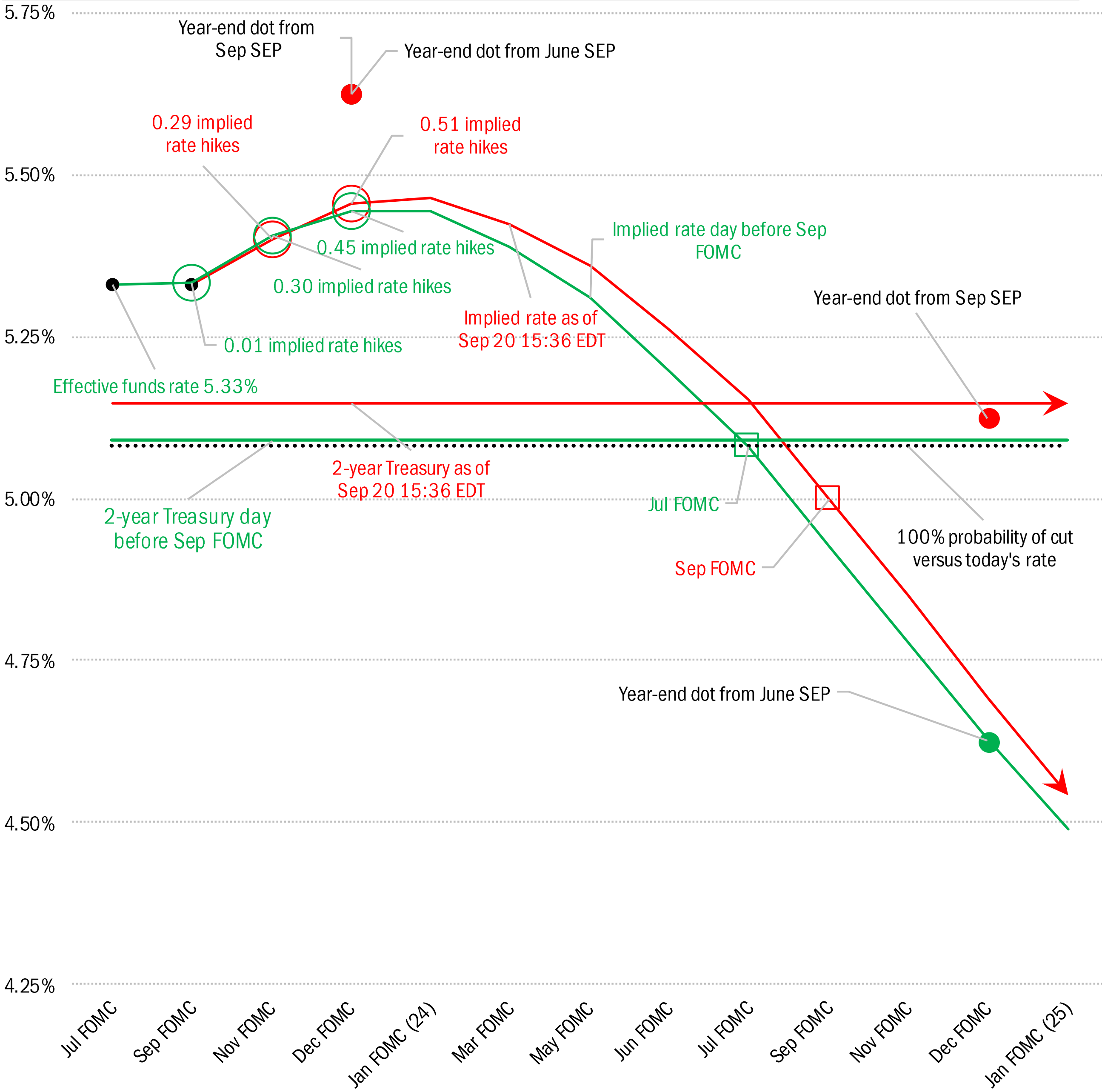
“Projected appropriate policy path” of fed funds rate at year-end, per Summary of Economic Projections



Source: Federal Reserve Board, TrendMacro calculations *deliberately alarming that the dot for year-end 2024 was moved up to 5-1/8% from 4-5/8% in June*. One crackpot on the FOMC even moved his dot up to a new high of 6-1/8%. *That means just one 0.25% rate cut from today's 5-3/8% funds rate over the next five quarters.*

- *Why, other than to contain an over-exuberant market reaction*? In the post-FOMC presser, when Fed Chair Jerome Powell was asked what underlying inflation dynamics motivated the dot plots to point to higher rates for longer, he said it was all about the committee's view on economic growth – higher growth expectations require higher

Futures-implied funds rate, by FOMC meeting



Source: Bloomberg, TrendMacro calculations rates in order to rein in inflation.

- The very few language changes in today's FOMC statement slightly upgrade the committee's perception of overall growth (from "moderate" in June to "solid" now), and downgrade job gains (from "robust" in June to "slowed…but remain strong" now – see "Data Insights: Federal Reserve" September 20, 2024).
- The economic forecasts in the SEP upgraded 2024 real GDP growth to 1.5% from 1.1% in June. And the unemployment rate was upgraded to 4.1% from 4.5% in June.
- *Of course growth does not actually cause inflation, except in the Fed's flawed analytic framework – in reality, inflation is always and everywhere a monetary phenomenon*. But even if it did, newly forecasted 1.5% real GDP growth is hardly any growth at all. The lower 4.1% unemployment rate is higher than today's 3.8%.

We're happy to be able to report that, at least as of this writing, the markets don't seem to be taking all these atmospherics terribly seriously.

- The futures curve has only upgraded the implied probability of a rate hike by December from 45% yesterday to 53% now (please see the chart on the previous page).
- It has deferred its expectation for the first rate cut from the July FOMC to September.
- And it has upgraded the expected funds rate for December 2024 by only 5 bp, from 4-5/8% yesterday.
- Perhaps the markets see what we see and the FOMC does not: that the money supply is in the first outright contraction in modern history, and published inflation statistics are virtually collapsing, well on their way to outright deflation (see, among many, see "Inflation Has Peaked -- Get Ready for Deflation" May 24, 2023).

Bottom line

Leaving the "dot" for year-end 2023 at 5-5/8%, the Fed has effectively announced that one-and-done is now a worst-case scenario. But apparently to prevent market exuberance, the FOMC sharply moved up the dot for 2024 to suggest that the funds rate will stay at an admittedly restrictive level longer than previously expected. The cover story is an upgrade to growth expectations – but the actual forecasts are so tepid they couldn't possibly contribute to inflation risk, even within the Fed's flawed analytic framework. As of this writing markets are not taking the Fed's guidance seriously, with little more than a 50/50 chance of a hike by December.

Contact TrendMacro

On the web at
trendmacro.com

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Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

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