

FED SHADOW

It's Two! Two Feds in One!

Friday, December 15, 2023

Donald Luskin

New York Fed's Williams: who are you going to believe, me or your lying Fed chair?

New York Federal Reserve President John Williams [on CNBC's "Squawk Box"](#) this morning:

"We aren't really talking about rate cuts right now. We're very focused on the question in front of us, which as chair Powell said... is, have we gotten monetary policy to sufficiently restrictive stance in order to ensure the inflation comes back down to 2%? That's the question in front of us."

But "as chair Powell [actually](#) said" [at Wednesday's FOMC presser](#) (see ["On the December FOMC"](#) December 13, 2023):

"...the question of when will it become appropriate to begin dialing back the amount of policy restraint in place, that begins to come into view, and is clearly a topic of discussion out in the world and also a discussion for us at our meeting today."

Who's right? Well... considering that the overwhelming majority of participants moved their ["dot plots"](#) far below today's funds rate – to predict now three cuts in 2024 – we'd say it's a sure thing they discussed cuts.

At any central bank, credibility is our most important product. Sorry, we're fresh out.

Bottom line

The Fed's dovish message in Wednesday's FOMC statement was not contradicted by the usual "yes, but" from Powell, who said rate cuts were discussed at the meeting and that significant progress had been made on the "sticky" components of inflation. Now Williams is doing the "yes, but" by flatly stating there was no discussion of rate cuts, despite all the "dot plots" having been moved lower. Markets yesterday moved the implied certainty of the first cut to March, as we've been predicting for months. As of this writing, after Williams' statement, markets still give a March cut a 78% probability. By March inflation will have collapsed further, deflation will begin to become inescapably evident, and the first cut will come. ▶

Update to strategic view

FEDERAL RESERVE:

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