Macro Notes

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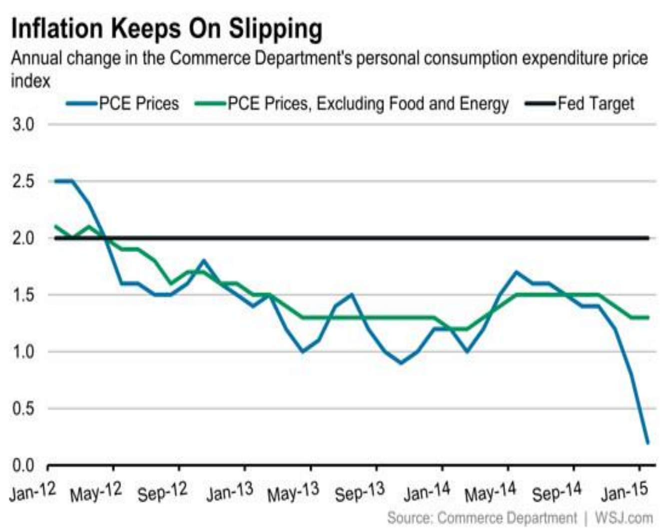
The Fed – a Dove Dressed as a Hawk

"Modern" central bankers have an amazing aversion to normalizing monetary policy. The Fed's action this week did not disappoint; it was an exquisite contortion, worthy of Cirque du Soleil:

- First came the z*ig*: removing the word "patient". As Janet Yellen said, the result would be interest rates increasing within the next two meetings. Liftoff! Some thought the Fed had slipped out of a trap and re-gained flexibility and control. Monetary policy might now be data-dependent, as it should be. Kudos to the Fed!

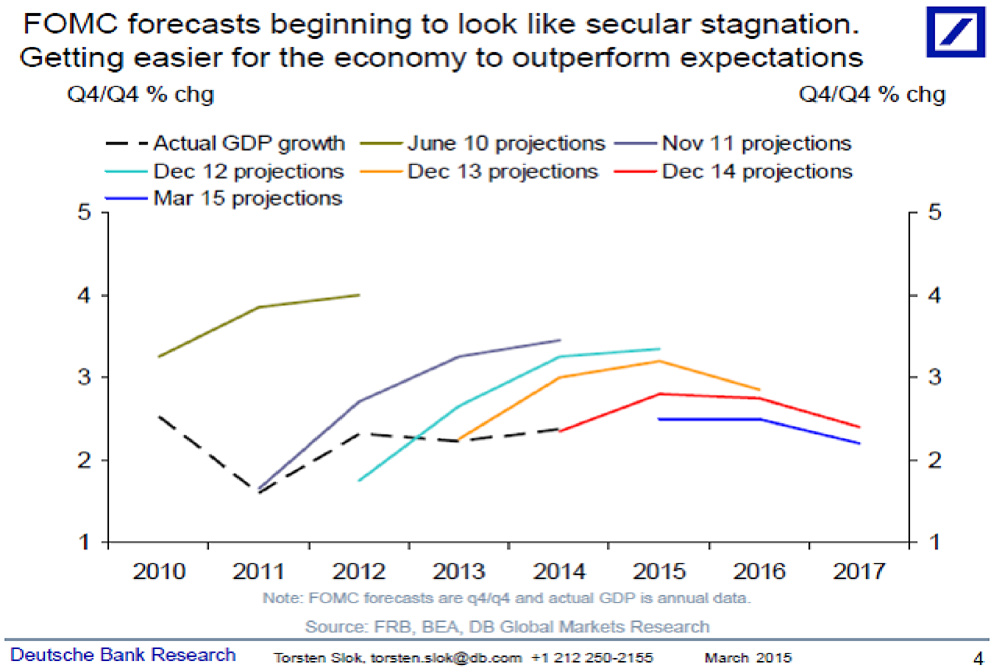
- Then came the *zag:* "Just because we removed the word 'patient' does not mean that we are going to be 'impatient'," said Janet. Next, she announced a much lower median estimate for Fed Funds at year end 2015: down 50 bps, from 1.125% to 0.625%.

With headline inflation well below target, the market quickly concluded that the policy stance was to stand pat:



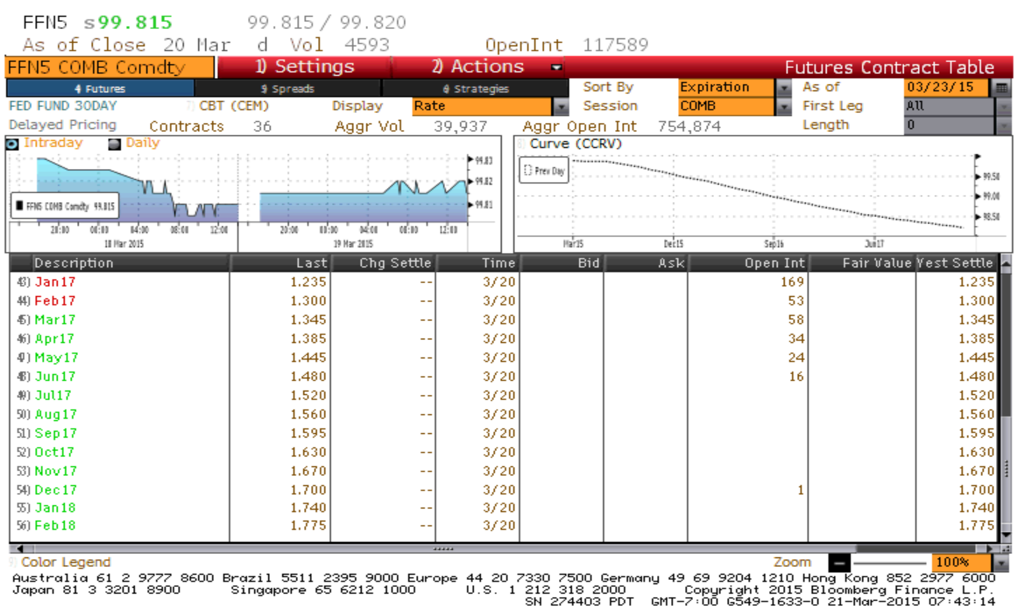
And then another *zag.*

The dot plot of the Fed shows views and deviation for each voting member of the FOMC. Now it points to a weaker economy, especially in housing and exports, and despite recent gains, employment is far short of potential. So the Fed will definitely not be *impatient* – but does that mean they will be patient? <u>For five years FOMC expectations for GDP growth have been lowered again and again</u>…and that was the case again last Wednesday:



Zig, Zag, Zig – we are right where we started!

After the initial reaction (2%+ Euro/dollar move, S&P swings from loss to gains, UST yield contracts, EM currencies fly, commodities up, etc.), everything was <u>back to "normal" in less than a day.</u>



Description	Last	Chg Settle	Time	Bid	Ask	Open Int	Fair Value	Yest Settle
43) Jan17	1.235	--	3/20			169		1.235
44) Feb17	1.300	--	3/20			53		1.300
45) Mar17	1.345	--	3/20			58		1.345
46) Apr17	1.385	--	3/20			34		1.385
47) May17	1.445	--	3/20			24		1.445
48) Jun17	1.480	--	3/20			16		1.480
49) Jul17	1.520	--	3/20					1.520
50) Aug17	1.560	--	3/20					1.560
51) Sep17	1.595	--	3/20					1.595
52) Oct17	1.630	--	3/20					1.630
53) Nov17	1.670	--	3/20					1.670
54) Dec17	1.700	--	3/20			1		1.700
55) Jan18	1.740	--	3/20					1.740
56) Feb18	1.775	--	3/20					1.775

Color Legend Zoom 100%

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What is clearly priced into the market is that the Fed remains in a conundrum. At the meeting last week the FOMC could only choose to Normalize or Not, and they chose Not. Eat your heart out, acrobats of Cirque du Soleil!

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