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MACRO MORNING BRIEFING

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# Special Edition: FOMC Not So Hawkish After All

## No Hikes, No Cuts -- For now

- Fed still indicates it expects next move to be a cut
- Chair Powell pours cold water on potential hike
- Balance sheet tapering slowed - a bit more than expected

## Could Have Been More Hawkish

The outcome Wednesday of this week's Federal Open Market Committee meeting turned out to be less hawkish than we – and apparently markets – expected. The key phrase in the statement was unchanged, “The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”, so the Fed continues to affirm its bias towards easing policy.

Chair Powell affirmed this in his press conference, while also acknowledging that the Committee feels it will take longer than initially thought to gain the required “greater confidence”. Also in the press conference he further asserted: “We are prepared to maintain the current target range for the federal funds rate for as long as appropriate.”

The Chair was afforded many opportunities to address the potential of a rate hike (instead of a cut) but refused to take the bait from the journalists present: “I think it's unlikely that the next policy rate move will be a hike…our policy focus is really … how long to keep policy restrictive.” He added: “there are paths that the economy can take that would involve cuts. And there are paths that wouldn't. I don't have great confidence in which of those paths." He may not have much confidence, but he doesn’t seem to see a path to hikes, in our view.

We also note the Chair’s frequent mention of a potential labor market slowdown, while still acknowledging that the labor market is still on the tight side. To quote: “we are also prepared

to respond to an unexpected weakening in the labor market." This plus the insertion in the statement of risks to achieving its employment and inflation goals as having moved toward better balance indicate that the Fed is now attentive to any weakening in employment, something we think could come into play in coming months, especially if the JOLTS data reported Wednesday morning prove meaningful.

This is all much less hawkish than it could have been and, dare we say, less hawkish than we expected (our preview here). Markets mostly rejoiced at both the statement and the press conference – yields and the dollar lower and equities higher.

To us, this decision to hold, and to still view an eventual cut as the most likely future move, sets the stage for a volatile summer ahead. Effectively, the Fed is data dependent, meaning every data release – especially as relates to inflation – acts as a referendum on where the Fed will go (or not go). There hasn't been a lot to suggest inflation is going to moderate.

Nevertheless, given the Fed's consistency in not closing the door on an eventual rate cut, we retain our view for one in September. We acknowledge that as Powell said, he sees a path where rates will come down and path to where they wouldn't move. This suggests to us a bias towards cutting, still. We think September will be the appropriate time. We also note that the Chair went to great pains to dismiss any political motivations to policymaking in relation to the upcoming election season. Expect to hear more of this in coming months.

In addition to the rate discussion, the Committee announced a reduction in the pace of quantitative tightening, from $60bn to $25bn per month for Treasuries, to start in June. We had expected a QT announcement, but the size of the reduction was a touch large than the $30bn we foresaw. We note that the actual pace of runoff over the last 12 months averaged just over $50bn per month, so the move to $25bn effectively represents a halving of QT.

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