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Instant Thoughts

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Dipping Toe in the Water

- The post-meeting statement itself was just a tiny tinkering. Inflation remains considered as “transitory”.
- Chair Powell was at total liberty to introduce Delta variant as a justification for driving his dovish stance home. He just didn’t. Powell finally gave a nod to tapering as Fed’s regional presidents are in simmering revolt.
- Our base case is that the September and November FOMC meetings are warm ups, whilst tapering would be officially announced in December. We expect USD to go from strength to strength as the tortuous normalization continues.

Policy rates remain unchanged after the July FOMC meeting. Pinning rates to ground for more than a year, analyst is getting used to tease out the last drop of nuance of the post-meeting statement. Despite that, it almost becomes an impossible task recently.

The statement itself was just a tiny tinkering, acknowledging economic conditions have “continued to strengthen”. Inflation remains considered as “transitory”, and everything in the Universe is “transitory” according to the Second Law of Thermodynamics.



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Naturally, eyes are squarely on Chair Powell, and he didn't let Fed watchers down. Powell was at total liberty to introduce Delta variant as a justification for driving his dovish stance home. He just didn't. Instead, he deliberately appeased the market that "there has tended to be less in the way of economic implications from each wave." What makes him consign the growth fear to the backburner is a myth. We suspect Powell finally gave a nod to tapering as Fed's regional presidents are in simmering revolt.

Still, Powell didn't plant any clue about the possible timing of taper. The Fed merely repeated the signaling "well in advance" line. That phrase meant 2 meetings in 2017. Our base case is therefore that the September and November FOMC meetings are warm ups, whilst tapering would be officially announced in December. USD is projected to go from strength to strength as the tortuous normalization continues.



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