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Instant Thoughts

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The Show Must Go On

- **“If progress continues broadly as expected,” the Fed concluded, “a moderation in the pace of asset purchases may soon be warranted.”**
- **Startlingly though, this “hawkish” development has been met with a yawn. Possibly, the market had been buying dollars all week on the Evergrande saga and took profit on today’s hawkish setting.**
- **We are convinced that the market will still be minded to buy the dollars on dips.**

The Fed did not get cold feet with tapering amidst of the ill-timed volatility spikes in financial market.

“If progress continues broadly as expected,” the central bank concluded, “a moderation in the pace of asset purchases may soon be warranted.” As if the market could be confused, it even comes with not-so-subtle recognition: The Fed tee up “the upcoming meeting (in November)” as the likely beginning of tapering.

For sure, the Fed has been at pains to explain over the years, all policy changes are conditional. But Chair Powell finally had the stomach to call that it’s cumulative progress toward the employment goals that matters, rather than incremental progress. Barring a disastrous payrolls report next month, a November tapering is by and large a done deal.

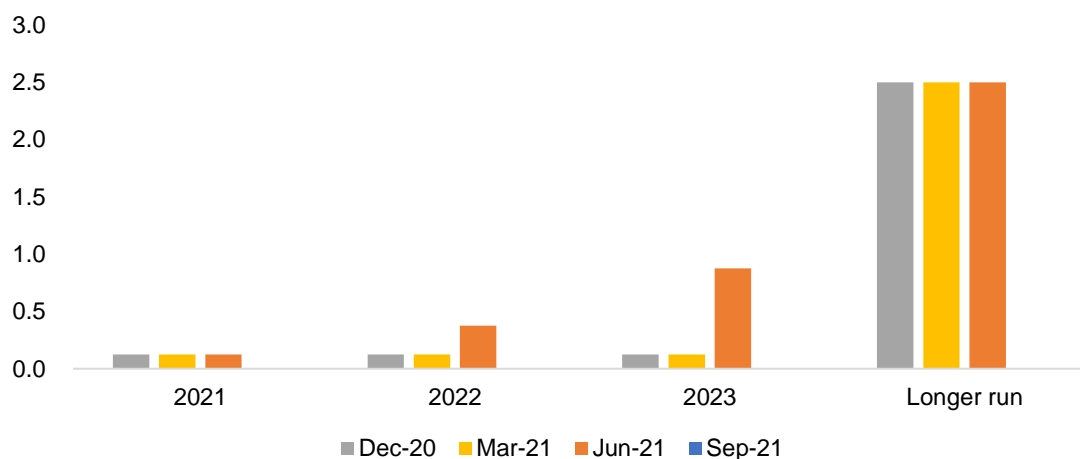


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The dot plot is similarly hawkish. The median dot for 2022 edged up by 12.5bp to imply half a hike by the end of next year (Exhibit 1).

Exhibit 1: Median Rate Forecast (%)



Source: Federal Reserve

Startlingly though, this “hawkish” development has been met with a yawn. One possible explanation is that Chair Powell and New York Fed President Williams are likely in the dovish camp which projects no hike next year. Alternatively, the market had been buying dollars all week on the Evergrande saga and took profit on today’s hawkish setting.

Clearer dollar positioning suggests that the hurdle for USD strength is somewhat milder than otherwise. We are convinced that the market will still be minded to buy the dollars on dips.



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