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# Instant Thoughts

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## Don't Run if You Can Walk

- Fed announced today that it will begin reducing the monthly QE by \$15bn – \$10bn in Treasuries and \$5bn in MBS holdings.
- There's nothing urgent on rate liftoff. Fed's tone on inflation didn't sound as worried as market pricing suggests. Powell's over-the-top dovishness seems little moved either.
- So far, traders are contented with being spoon-fed by the Fed. The "policy-error" conversation, however, will be brought up more and more as we go into next year.

The late, great economist J.M. Keynes always said, when the facts change, I change my mind." Finally acknowledging that the "substantial further progress" test has been met, the Fed announced today that it will begin reducing the monthly QE by \$15bn – \$10bn in Treasuries and \$5bn in MBS holdings, kicking off in mid-November.

What does the well-flagged tapering mean for the timing of rate hikes? There's nothing urgent. Fed's tone on inflation didn't sound as worried as market pricing suggests. The Fed judges "inflation is elevated, largely reflecting factors that are expected to be transitory". Powell's over-the-top dovishness seems little moved either. He kept most of his answers vague in the presser, merely saying "the time for lifting rates will be dependent on the economy. If a response is called for we will not hesitate." Seemingly, the Fed will not likely hike while tapering though. We remain comfortable with the view that the rate liftoff will come at the end of 2022.



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The greenback was caught in a tight range as the market looked through the dovish musings from Powell. So far, traders are contented with being spoon-fed by the Fed. It's still not the time for them to push the Fed into action. But out of their penchant of freewheeling, it feels inevitable that that "policy-error" conversation will be brought up more and more as we go into next year, therefore posting upside risks for the US dollar.



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