

## Weekly Commentary

# Fed's version of reality TV?

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### Key takeaways

- Release of the March FOMC meeting minutes revealed rising divergence within the committee
- Chair Yellen disclosed that the 2% inflation target of the FOMC is "our goal, it's not a ceiling"
- Past and present Fed Chairs generally agreed that the economy was in good shape

### Full commentary

With little economic news to focus on last week, attention shifted to the Federal Reserve's (Fed) version of reality television, with a broad cast of celebrities highlighting the drama of setting monetary policy. Release of the minutes of the March Federal Open Market Committee (FOMC) meeting provided fodder for the commentaries and stoked a flame of rising divergence within the committee. In the parlance used in the minutes, "some" pointed towards continued improvement in labor market conditions, leveling off of oil prices and a firming trend in inflation as foundation for raising interest rates as projected. "Participants" were supportive of continuing with rate normalization, even debating an April interest rate hike, on the assessment that the domestic economy continued to expand moderately despite global economic and financial developments. Kansas City Fed President Esther George, the lone dissenter at the March meeting, stood ready to raise rates. She favors "slowly removing accommodation" to reduce risks of fueling asset bubbles, stating the Fed was "tempting fate" by keeping monetary policy exceptionally loose. Typically considered an interest rate "dove," Boston Fed President Rosengren stepped forward and opined that the US "has weathered foreign shocks quite well" and believes it "will likely be appropriate to resume the path of gradual tightening sooner than is implied by financial markets futures."

However, contrary to the comments above, "many" participants expressed concern that the global and financial situation still posed "appreciable downside risks to the domestic economic outlook." A quick look at the new "dots" or Summary of Economic Projections, revealed a narrowing range of views across the committee for 2016 and 2017 (see chart of the week on page 2). New York Fed President Dudley summarized the consensus view regarding "significant uncertainty" about the economic growth prospects abroad and taking time to assess "how this will affect the US economic outlook," calling for "cautious and gradual approach" to interest rate increases. In her comments, Chair Yellen has also fixated on downside risks from global influences citing "room to raise rates if the economy turns out to be stronger than anticipated, while having less room to ease if growth softened." She also prefers to proceed with caution, highlighting the "proximity of the zero boundary on interest rates" and asymmetry of risks. In a final blow to rate skeptics, she disclosed that the 2% inflation target of the FOMC is "our goal, it's not a ceiling."

In a unique venue with past and present Fed Chairs Yellen, Bernanke, Greenspan and Volcker, leadership spanning 37 years of history of the Fed, added heft to the production. In discussing the economic outlook, Yellen appeared to have their support as the group generally agreed that the economy was in good shape, the risk of recession was low and fiscal policy needs to play a larger role in promoting growth.

By week's end, markets were left with the typical feeling of watching too much reality TV: there were some entertaining moments that actually provided some useful information; but mostly there's just a feeling of overexposure, wishing you had seen less of the actors.



### This week's market developments

#### Monday, April 4

- Eurozone Unemployment Rate remained at 10.3% for February
- US Factory Orders growth decreased to -1.7% m.o.m. (s.a.) for February

#### Tuesday, April 5

- Germany Factory Orders growth decreased to -1.2% m.o.m. (s.a.) for February
- Eurozone Retail Sales growth decreased to 0.2% m.o.m. (s.a.) for February
- US ISM Non-Manufacturing Composite increased to 54.5 for March

#### Wednesday, April 6

- Germany Industrial Production growth decreased to -0.5% m.o.m. (s.a.) for February

#### Thursday, April 7

- UK Halifax House Price growth increased to 2.6% m.o.m. (s.a.) for March
- Japan Economy Watchers Survey for Economic Outlook decreased to 46.7 for March

#### Friday, April 8

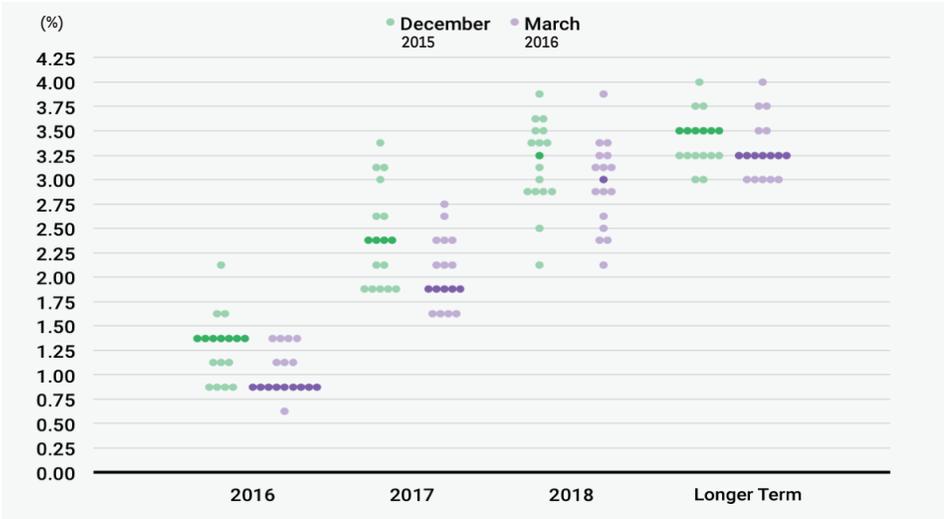
- France Industrial and Manufacturing Production growth decreased to -1.0% and -0.9% m.o.m. (s.a.), respectively for February
- UK Industrial and Manufacturing Production growth decreased to -0.3% and -1.1% m.o.m. (s.a.), respectively for February.

Source: Bloomberg, as of end April 8, 2016



### Chart of the week

FOMC Dot Plot reveals convergence of opinions for 2016/2017 rates outlook



Source: FOMC, Business Insider



### Next week's market developments

#### Monday, April 11

- Japan Machine Orders growth is expected to decrease to -12.0% for February

#### Tuesday, April 12

- UK CPI growth is expected to increase to 0.4% y.o.y. for March

#### Wednesday, April 13

- US Advance Retail Sales growth is expected to increase to 0.1% m.o.m. (s.a.) for March
- Eurozone Industrial Production growth is expected to decrease to -0.7% m.o.m. (s.a.) for February
- US PPI growth is expected to increase to 0.3% y.o.y. for March

#### Thursday, April 14

- US CPI growth is expected to increase to 1.1% y.o.y. for March
- US Initial Jobless Claims are expected to increase to 270,000 for the week

#### Friday, April 15

- US Empire State Manufacturing Survey is expected to increase to 2.0 (s.a.) for April
- US Industrial Production growth is expected to improve to -0.1% m.o.m. (s.a.) for March
- US University of Michigan Consumer Sentiment Index (preliminary estimate) is expected to increase to 92.0 for April

Source: Bloomberg, as of end April 8, 2016



### Central Bank Watch

	Last move	Date of move	Current policy rate	Implied 3m rate on March 2016 Interest Rates Futures Contract	Next meeting
<b>Fed</b>	+25 bps	December 16, 2015	0.25% - 0.50%	0.39%	April 27
<b>ECB</b>	-5 bps	March 10, 2016	0.00%	-0.21%	April 21
<b>BoJ</b>	-20 bps	February 16, 2016	-0.10% - 0.00%	0.06%	April 28
<b>BoE</b>	-50 bps	March 5, 2009	0.50%	0.60%	April 14

Source: Bloomberg

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