“Highly Attentive” Fed Unleashes Biggest Rate-Hike Since Bursting The Dot-Com Bubble

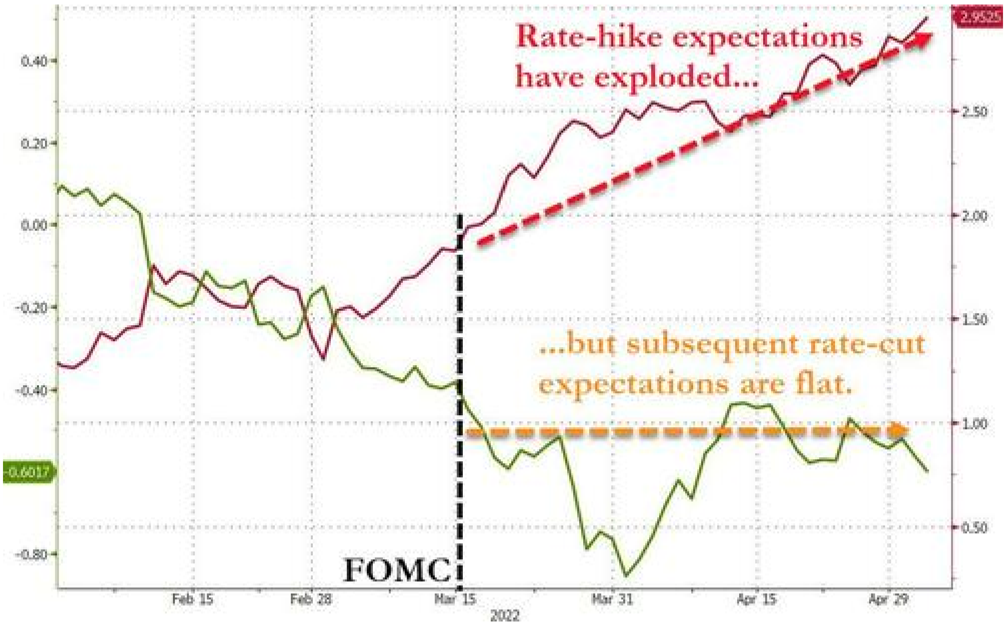
Description

Tl;dr:

- The **Fed hiked rates 50bps** – as expected. That is the **biggest rate-hike since the bursting of the Dot-Com bubble in May 2000**.
- **The Fed will ‘taper’ into its QT starting June 1st.**
- The **“highly attentive”** comment about inflation risks signals a hawkish tone but overall this is **not more hawkish than expected**.

* * *

Since the last FOMC meeting, the short-term interest-rate (STIR) market has adjusted dramatically more hawkish in its outlook for the rest of the year – now pricing-in 11 more rate-hikes (that includes the expectation of 2x 25bps hikes today). But at the same time, the expectations for subsequent easing from what will inevitably create a recession have barely budged…



Source: Bloomberg

Markets have been extremely volatile in the weeks since The Fed meeting (amid endless hawkish jawboning) with the dollar surging almost 5% higher against its fiat peers while bond prices have collapsed. Gold and stocks have been equally pummelled since March 16th, but as is cxlear from the chart below, stocks have been a bloodbath since the post-Fed meltup finished at the end of March)…

Source: Bloomberg

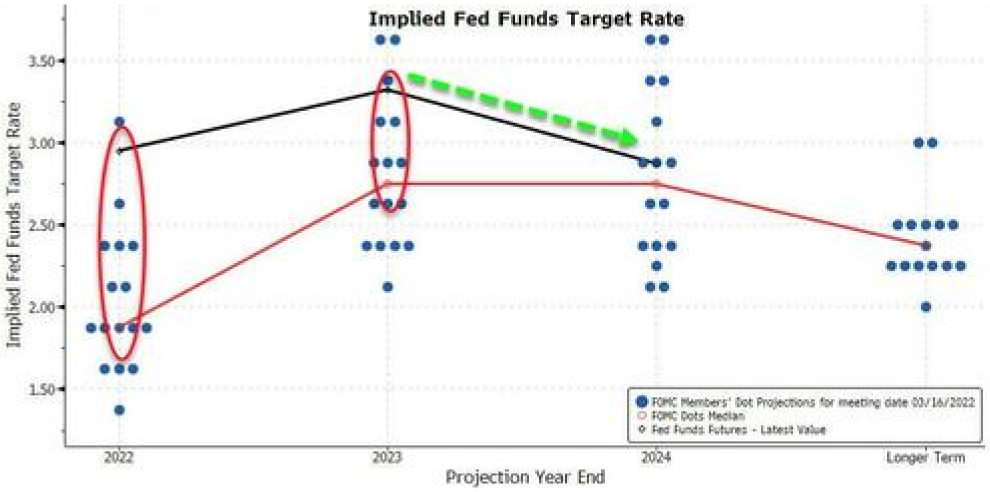
The Treasury curve is screaming Fed Policy Error imminent, having flattened into inversion since the March statement…

Source: Bloomberg

To those claiming The Fed is being too hawkish, bear in mind that **The Fed is 1165bps 'too easy' based on the Taylor Rule…**

Source: Bloomberg

Before today's statement, the market is considerably more hawkish than the median dots from The Fed through 2022 and then more dovish than The Fed expects to be in 2023 (because The Fed can't admit it expects to create a recession that needs rate-cuts)



Source: Bloomberg

"the market is pricing in a 100% chance of 150 bps of Fed tightening over the next 3 FOMC meetings and a 52% chance of 175 bps of tightening by Aug 31."

So expectations are fully priced in for a 50bps hike today BUT the question is **what tone is set going forward – for both the rate trajectory and pace of QT – and will the dots catch up to the market once again.**

And if you think stocks are pricing-in all this hawkishness, think again (note that after the last Fed meeting, stocks went vertical in a massive hedge-unwind-driven melt-up for two weeks)…

Source: Bloomberg

The Bear Traps' Larry MacDonald summed up The Fed's dilemma/farce best:

> "**The Fed went to 50BN a month in September of 2018 and had to stop five minutes later** in December this was after promising Wall St economists they were on Auto-pilot all the way up to a 2T reduction. Now, they are going to give it a try at 90B a month in May with back to back 50 bp hikes? **Who are they kidding?**
>
> It's the worst start to a year for stocks in decades, consumer savings is down to the bone, GDP prints negative, and the Fed is going to kick off a record tightening cycle? **It´s all a show.**"

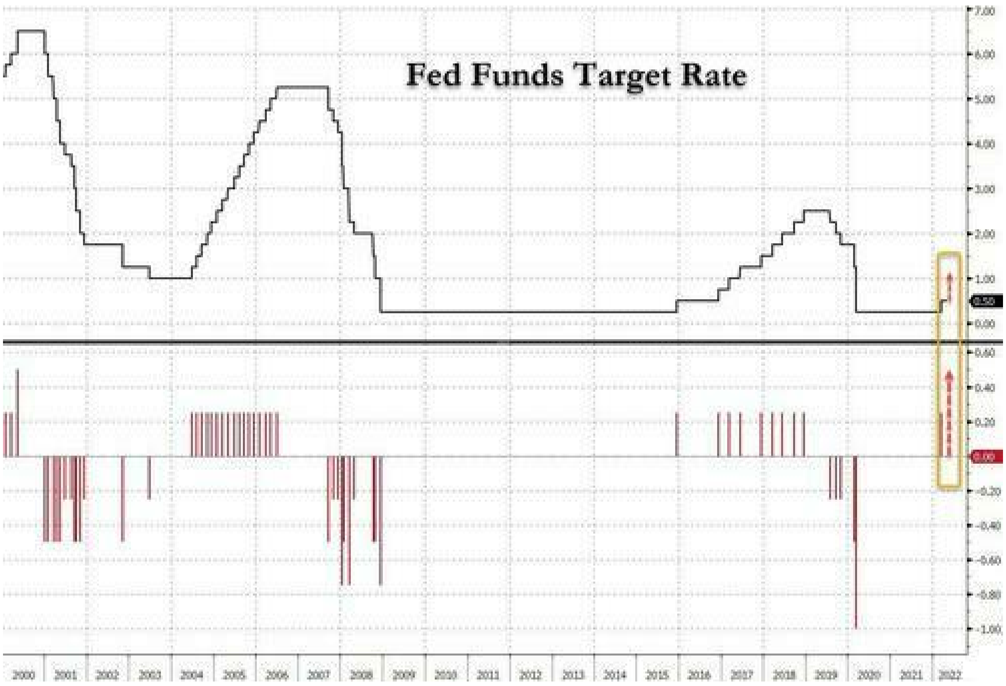
And remember, SocGen have warned that The Fed can only hike rates to 1.00% before all hell breaks loose.

So what did The Fed do…

- ***FED RAISES RATES 50 BPS, TO START RUNOFF JUNE 1 AT $47.5B/MTH**
- ***FED: RUNOFF PACE TO RISE TO MAXIMUM $95B/MTH AFTER THREE MONTHS**
- *FED SAYS IT IS `HIGHLY ATTENTIVE' TO INFLATION RISKS
- *FED EXPECTS `ONGOING' INCREASES IN RATES WILL BE APPROPRIATE

The 'highly attentive' comment is somewhat hawkish but overall, this not more hawkish than consensus.

Finally, we note that this is **the first 50bps hike since May 2000 and the first back-to-back FOMC meeting hikes since 2006.**



Read the full redline below:

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Indicators ofAlthough overall economic activity and employment have continued to edged down in the first quarter, household spending and business fixed investmengthent remained strong. Job gains have been strongrobust in recent months, and the unemployment rate has declined substantially. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term t. The invasion and related events are likely to createing additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 13/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee expectsdecided to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meetingon June 1, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in conjunction with this statement.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Esther L. George; Patrick Harker; Loretta J. Mester; and Christopher J. Waller. Voting against this action was James Bullard, who preferred at this meeting to raise the target range for the federal funds rate by 0.5 percentage point to 1/2 to 3/4 percent. Patrick Harker voted as an alternate member at this meeting.

Implementation Note issued March 16y 4, 2022

Related Information

Plans for Reducing the Size of the Federal Reserve's Balance Sheet

Last Update: March 16y 04, 2022

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. Main

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