

## **Breaking Down the September FOMC Meeting**

The long awaited September FOMC meeting wraps up this afternoon with a press conference led by Chair Yellen at 2:30 EST. Her words will be scrutinized by investors under a microscope, most likely looking for clues and indications as to just how likely we are to see a hike in December. The prevailing view, which is evidenced best by the CME FedWatch tool which ascribes just a 15% probability of a rate hike being announced today, is that due to political implications the Fed will hold off. With the Presidential election most likely taking November off the table, the promised single hike of 2016 will probably come at the final hour once again, at this year's December meeting. The Fed's actions are starting to feel eerily similar to last years. In December of 2015 the Fed made a widely ridiculed and seemingly rushed move to raise rates a quarter point. This one-off move sparked over a month of extreme market volatility and a 20% sell-off in the S&P to kick off 2016.

## **Some Things to Expect from Today's FOMC Meeting**

- Yellen will frame the decision not to raise rates as data dependent and necessary in order to achieve the Fed's economic targets
- Donald Trump and the right wing will accuse the decision as being politically motivated
- The Central Bank will release a fresh "dot plot" likely to show a quarter-point rate hike by year end – will be widely interpreted as a raise being announced in December
- Fed will cautiously move ahead, speak of "normalizing" monetary policy and frame a quarter point hike as a step in that direction – Yellen could also explain how the new "normal" environment has changed

A new "dot plot" which sends too confident of a signal that a rate rise will come by year end could cause some implications for the Fed's credibility. It might raise the question that if Fed officials are so confident, why not hike rates now? Not to mention would sending such a strong signal now despite not meeting certain targets, are we de-facto lowering the bar on the quality of data needed to support a hike? Would the self-proclaimed "data-dependent" Fed be hiking because of perceived past commitment and as a desperate attempt to maintain "credibility" or because data dictates such a move?

## **What Not to Expect from Today's FOMC Meeting**

- Two of the Fed's 23 preferred bond-trading partners -- Barclays Plc and BNP Paribas SA -- are predicting Fed officials will raise rates today. This is the first time more than one dealer has gone against the consensus during the week of a policy meeting since last September.

This is highly unlikely as the Fed has never raised rates into a meeting where the market probability was any lower than 50%. The CME FedWatch tool currently has odds pegged at 15%. Not to mention, the last thing the Fed wants is a repeat of last year's reaction to what many interpreted as a "surprise" rate hike decision.

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