

Research

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A hike could come as soon as July

- **Boy did I get that one wrong, Fed Chairman Warsh's first press conference after the FOMC meeting.** Contrary to my expectations, Warsh performed as an inflation hawk and primed markets for rate hikes – not just a single lousy hike. He almost came out of the closet as a monetarist by saying that inflation is a choice. Music to my ears.
- **The message I heard from Warsh is crystal clear. 1+1+1=3.** Warsh stressed that inflation has been above target for more than five years while emphasizing the primacy of the two percent target. He also underscored that the labor market is most likely strengthening. And he said a couple of times financial conditions are easy except for the housing market. The takeaway: there is no reason to wait until later this year to hike. More importantly, Warsh, who really hates forward guidance, had a Freudian slip of sorts. When quizzed by journos about tightening and recent inflation data, he stressed several times that there's another meeting soon, in July, and that more data will be available six weeks from now. And, lo and behold, fed funds futures now price in 8bps of hikes for that meeting.
- **While I lean towards a July hike, Warsh gave himself a get-out-of-jail-free card to delay tightening to the fall (September) or even until after the midterm elections.** With much fanfare, he announced multiple task forces that will offer proposals for overhauling the Fed's open market operations, balance sheet, data gathering, and communication amongst other things. If those task forces deliver their recommendations later this year, Warsh has fig-leaf cover to wait until December – after the midterms – to start tightening. If he chooses this path of delay – a difficult path to walk if inflation remains clearly elevated month-after-month – my description of Warsh, window-dresser, will very much be bang on.
- **A metaphor Warsh used a lot during the press conference was a healthy 'family fight' when talking about disagreements among FOMC members and within the broader Federal Reserve system.** Of course, dissent is healthy and preferable over the mostly unanimous decisions of the Powell Fed. On the other hand, embracing the fights is him rationalizing that he faces a divided FOMC. In the FOMC's latest projections, I count eight dots for a hold this year, one dot flagging a cut, and nine forecasting one or more hikes. Warsh, as expected, refrained from putting his own dot down.
- **To conclude with some sundry items that came up yesterday, the FOMC statement was very short, almost to the point of bluntness, with the roster of voters removed.** I like the brief statement though. The ECB should take note

with its fluffy Governing Council decision statement and the long-winding press conference introduction. Warsh will keep the press conferences – he showed himself to be a good and slick communicator. He obviously likes the interaction with the press corps, which is of much higher caliber than the lot that covers the ECB.

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