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Instant Thoughts

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Mercury Rises

- **Three members - Hammack, Kashkari, and Logan - dissented in favour of a 25bp hike. The hawks have a conviction right now that those inclined to wait may lack.**
- **Stunningly, Chair Warsh indicated that the rise in real yields had done "quite a bit of work" in tightening. After all, price stability is the Fed's job. Trader just deals with the consequence.**
- **Warsh's reluctance to flex his hawkish muscles proved costly to dollar and long-end bond bulls. As "constructive ambiguity" sets in right now, an Odyssean shift in rate direction could beget a degree of follow-through in dollar buying.**

The summer doldrums take hold, and the monetary policy outlook remains stable in the near term. The FOMC opted to keep interest rates steady for a fifth straight meeting today.

By no means, however, did the on-hold decision take the potential for a rate hike off the table. In what was seen as the closest Fed decision for many years, three members - Hammack, Kashkari, and Logan - dissented in favour of a 25bp hike. The hawks have a conviction right now that those inclined to wait may lack, when the inflation overshoot, driven by re-escalation of the conflict in the Middle East coupled with the imposition of new tariffs, becomes a persistent issue.

Why wait? Warsh, a devoted word salad lover, was slightly more candid on this question, indicating that the rise in real yields had done “quite a bit of work” in tightening. Eventually, the hope that the market will do the Fed's job could be delusional. After all, price stability is the Fed’s job. Trader just deals with the consequence. We are in the camp that thinks the Fed will hike in September, but it is going to be close.

Warsh’s reluctance to flex his hawkish muscles proved costly to dollar and long-end bond bulls. Greenspan could smile in the coffin. It makes rates and FX a market for the discerning, not desperate. As “constructive ambiguity” sets in at this moment, an Odyssean shift in rate direction could beget a degree of follow-through in dollar buying.

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