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Sent: Wednesday, June 19, 2013 3:31 PM
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Subject: What We've Got Here ... is Failure to Communicate, part deux

Wow. I've attached the note I wrote last Monday because it's worth another look in light of the Fed announcement today.

The market is down because the Fed says that the unemployment rate is declining faster than they thought, and will reach the 6.5% threshold for tightening in 2014. In his press conference Bernanke went even further, as he tied an end to QE purchases to a target mid-2014 unemployment rate of 7.0%.

Bernanke can say whatever he wants in follow-up questions about looking carefully at labor participation rates and other measures of US labor health, and he can say whatever he wants about how a threshold isn't a trigger, but all the market hears is blah, blah, blah. The market Narrative re: tapering, which is to say the Common Knowledge embedded in this market re: future Federal Reserve policy, is simple – if the unemployment rate goes down then the Fed will tighten. The Fed is telling you that the unemployment rate is going down faster than expected, so the Common Knowledge conclusion is that the Fed will tighten faster than expected.

Narrative formation can be a tricky thing, and we will see over the coming days and weeks how the Powers That Be and talking heads respond with their public statements to support the market. And rest assured, they will. But here's the real-time headline formation process in the WSJ post the 2p announcement.

Immediately after announcement (Breaking News): "Fed keeps rates unchanged and bond purchases steady. Central Bankers project that the unemployment rate could fall to 6.5% in 2014."

First Headline (2:05p): "Fed Expects Lower Unemployment"

First Intermediate Headline (2:15p): "Fed Brightens Recovery View, Stays Silent on Bond Buying"

Second Intermediate Headline (3:08p): "Fed Lifts View on Job Market; Bond Buying Intact"

So far, the Narrative is taking shape around the unemployment rate. If this continues, this is bad news for the market.

One final housekeeping note ... I've made some significant improvements to the Epsilon Theory website. Check it out when you have a chance. More to come on the website later this week, and I'm very excited about this Sunday's note – "How Gold Lost Its Luster and Other Just-So Stories from the Heroic Age".

All the best,
Ben