

# FOMC Minutes Preview: The Yield Curve Is Back In Focus

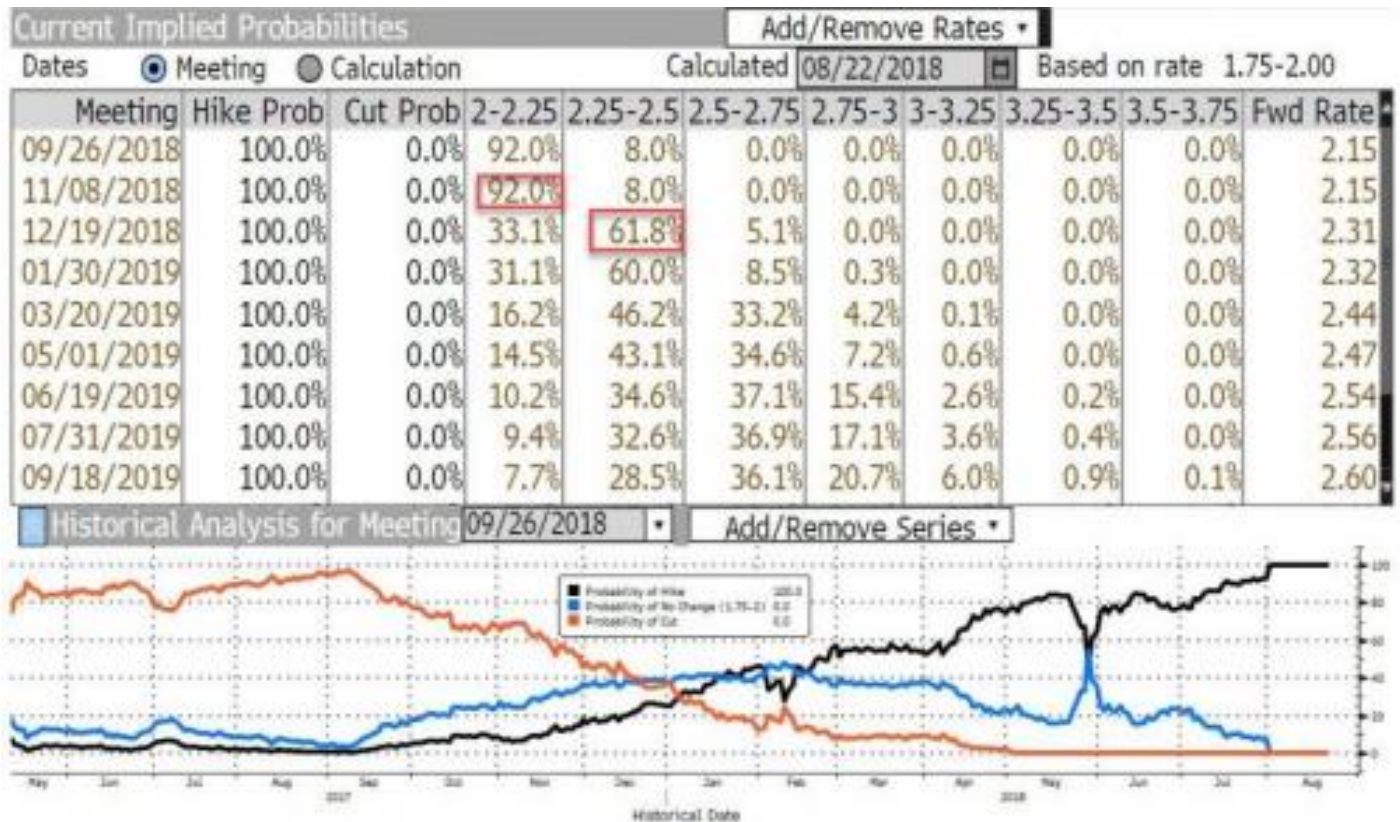


by Tyler Durden  
Wed, 08/22/2018 - 12:55

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The Minutes for the August FOMC meeting will be published at 2pm EDT. FOMC held rates in August, the release isn't expected to be a major market mover. Comments on Fed independence and yield curve inversion will garner focus, as well as for any statements defending the central bank's independence.

**MEETING RECAP:** The FOMC kept rates unchanged at between 1.75–2.00%, as was expected. The Fed has already hiked twice this year, and money markets are pricing in a probability of two more rate hikes in 2018 (in line with its 'dots') above 60%, with a 92% implied probability for a hike at the next meeting in September.



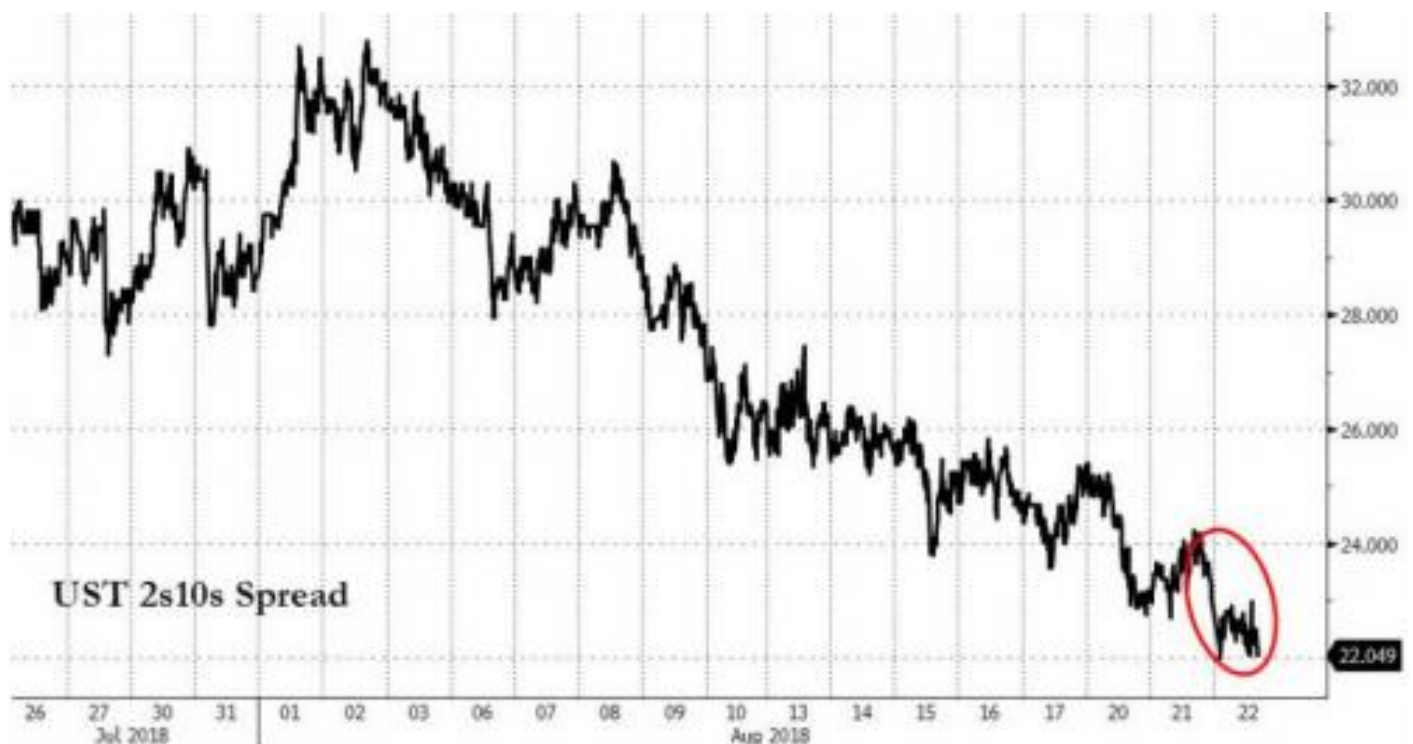
**AUGUST STATEMENT:** The Fed made very minor tweaks to its policy statement in August; risks are still “roughly balanced,” longterm inflation expectations are still “little changed,” policy remains “accommodative”, while the acceleration in growth was seen as “strong” versus “solid” previously. There were no amendments to its forward guidance, so analysts were happy to declare that the statement is consistent with a continuation of gradual hikes.



**FED INDEPENDENCE:** Any comments regarding the central bank's independence will be of interest after US President Trump again criticised the central bank this week, expressing frustration regarding Fed rate hikes, saying that he expected Fed chair Powell to be a "cheap money" Fed chair, and he was "not thrilled" with the central bank tightening policy amid alleged currency manipulation by the Chinese and Europeans. Some analysts were alert to the possibility that the Fed could have issue a statement on its independence at the meeting in August, which would have been seen as hawkish, but this did not materialise; the minutes will be scoured for clues whether the Fed is worried about its independence.

**TRADE:** At the August meeting, there was no major commentary on trade wars, despite concerns that agents expressed in the latest edition of the Fed's Beige Book. Although these worries may be touched on within the Minutes, traders will also look to chair Powell's comments at Jackson Hole this Friday for any signs – particularly any EM/trade war risks that could see the Fed slow its policy normalisation.

**YIELD CURVE:** The yield curve remains a focal point, with some analysts worried that any inversion could portend a recession, though others dismiss the argument, suggesting that 'this time is different' and the yield curve has been heavily influenced by the Fed's balance sheet. This week, the Fed's Bostic (voter, dovish) once again expressed worries over the current flatness of the curve, and said he would not knowingly vote for any action that would invert the Treasury curve.



**MARKET REACTION:** The most recent CFTC positioning data shows short 10-year and 30-year Treasury futures positioning is at record highs, prompting many desks to warn of a possible short-squeeze in the event that the Fed minutes, or indeed comments from Jackson Hole, errs on the dovish side. NOTE: the short-squeeze could also be triggered by further woes in EM, or even trade wars, analysts say. The base case, however, is that market reaction will likely be muted, since there was no real new information at the FOMC meeting. Analysts at UBS note that “the FOMC seems comfortable with the near-term path of policy communicated by its Summary of Economic Projections and seems eager to continue its recent pace of hiking.” This of course will continue to be data-dependant; “if data slows, the FOMC will pause; if it accelerates, the FOMC will consider increasing the pace of hikes.”

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