

PREVIEW: Fed Chair Powell to speak at Jackson Hole on 27th August at 15:00BST/10:00EDT

This year's Economic Symposium at Jackson Hole will be on the theme of "Macroeconomic Policy in an Uneven Economy." The highlight will be remarks from Fed Chair Powell, scheduled for Friday at 15:00BST/10:00EDT. The market will be looking for any clues about when and how the Fed will begin scaling-back its asset purchases. The Fed has been buying USD 80bn Treasuries and USD 40bn mortgage-backed securities per month, and has said that it will provide the market with advance notice about its intentions to taper these purchases, when 'substantial further progress' towards its inflation and labour market goals has been satisfied. Some however suggest that Powell may disappoint those who are expecting details on the process, since the Fed Chair may not want to front-run the FOMC's September 22nd meeting, and also since there are still differing views on the FOMC; some Fed officials, for instance, have said that they want to see the further employment reports before crystallising their view on tapering (note: the August jobs data is out on September 3rd, after Jackson Hole). We will be watching to see the extent to which Powell expresses concern on the Delta variant, which may signal a desire to move cautiously on a taper announcement.

'SUBSTANTIAL FURTHER PROGRESS': The FOMC's July meeting minutes noted that the standard of "substantial further progress" had not yet been met, particularly with respect to labour market conditions, and that risks to the economic outlook remained, although most judged that it could be appropriate to start reducing the pace of asset purchases this year because they saw the Committee's "substantial further progress" criterion as satisfied with respect to the price-stability goal, and close to being satisfied with respect to the maximum-employment goal. But there were still several participants that indicated that a taper was more likely to become appropriate early next year because they saw prevailing conditions in the labour market as not being close to meeting the Committee's "substantial further progress" standard, or because of uncertainty about the degree of progress toward the price-stability goal.

POWELL MIGHT NOT REVEAL MUCH: Some argue that Powell's remarks may be a damp squib for those expecting a rich amount of detail; analysts at Moody's, for instance, say that the Fed chair will not want to front-run the FOMC's September 22nd meeting, while some senior Fed officials have said they also want to see the August jobs report (out on September 3rd – after Jackson Hole) before firming their views. The influential Governor Brainard speaking a few weeks ago said that the determination of when to begin to slow asset purchases will depend on the accumulation of evidence on 'substantial further progress', and she would be looking for this evidence within the September jobs report.

DELTA CAVEATS: One area Powell could reveal his thoughts on the tapering debate is in his views regarding the Delta variant. Recently, Fed's Kaplan -- who has been more aggressive in his tapering views relative to other FOMC colleagues -- was judged to have dialled-back his enthusiasm on account of Delta fears; Kaplan said that if he saw the variant persisting, or hitting demand, the Fed would have to adjust its policy views accordingly. At the post-meeting press conference in July, Powell did not seem overly troubled by Delta, stating that continued progress on vaccinations would help support the return to more normal economic conditions. Powell also said that there had been fewer implications from each COVID wave, and spoke about how we are in a stage of learning to live with the virus, although he did add that the Fed had optionality if needed. SGH Macro's Fedwatcher Tim Duy has suggested watching to see if Powell follows Kaplan's lead and offers additional caveats about the current surge in infections; the key is how closely Powell follows the positioning of the minutes and Fed Vice Chair Clarida for evidence that the consensus on the Board is falling in line with a taper this year if the pandemic situation allows.

POTENTIAL TAPER TIMELINE AND COMPOSITION: There seems to be a consensus developing that the tapering process will be announced in September or November, beginning either at the end of this year or start of 2022. With this landing zone largely accepted, a key focus will be on the tapering process itself: at what rate will the Fed taper (many desks think around USD 15bn/month), over what time period (many think it will take a year or so), and what the composition of the taper will be (many think that MBS and Treasury purchases will be rolled-back proportionately; if we assume USD 15bn/month, that might imply tapering of USD 10bn of Treasuries and USD 5bn of MBS per meeting, if the tapering is indeed in proportion to the current rates of buying). Many of these questions will not be fully answered at Jackson Hole, and analysts suggest it is more likely that they will be revealed after the Fed has announced its intention to taper. Goldman Sachs' analysts, who are in line with this developing consensus, think that it is the FOMC's intention to formally announce the start of tapering at the November FOMC meeting, assigning a 45% probability, though have also assigned a 35% chance of a December announcement, with a 20% chance that it could be delayed until 2022. "We put high odds on a delay beyond November because of the downside risk posed by the Delta variant," Goldman writes, "we expect Powell to acknowledge both the strong employment gains in recent months and the downside risks posed by the Delta variant, and this would keep expectations on track for a potential September warning and November taper announcement, but would carefully avoid locking the FOMC into that timeline."

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