

## The FOMC Is “Talking About Talking About” Tapering After All!

- FOMC Minutes slightly pried the door open to talking about tapering
- More officials than expected say it’s conditional upon data over coming meetings...
- ...but few of them get a vote this year
- Treasuries sold off and the dollar rallied

Apparently, they *did* discuss tapering at the April 27<sup>th</sup>–28<sup>th</sup> FOMC meeting and a greater than expected number of committee participants are placing significant conditionality on incoming data over coming months before potentially opening the door to tapering. By my take, the minutes ([here](#)) convey new information that is material. Markets agreed as the US 10 year yield jumped by about 3bps, 2s10s steepened a bit and the USD rallied before covering may be settling in while the S&P slipped a touch.

The key is this passage which slips in at the end of the participants’ discussion:

“A number of participants suggested that if the economy continued to make rapid progress toward the Committee’s goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases.”

Recall that the Fed’s counting words that are used in the minutes go in this order: one, a couple/two, a few, a number of, several, some, many, most, almost all, all but one, generally all or consensus.

That doesn’t mean tomorrow. It’s not the June FOMC and probably not the July FOMC. It’s not necessarily going to result in consensus on when to taper any time soon as opposed to starting the process of talking about it. But it’s a sign and one that might differ from the impression Chair Powell had left us with depending upon how literally you take his words at the last presser.

I had thought that ‘one’ or ‘a couple’ might have stepped forward to indicate they were open to adjust (ie: in this case reduce) purchases depending upon incoming data over coming months. Maybe even ‘a few’ might have done so, but to say ‘a number’ is a greater than expected representation of such leanings on the committee albeit one that is not weighted toward voting status this year.

Recall that during the press conference to the April meeting, Chair Powell was very quick to say ‘no’ when asked if it was time for the FOMC to “start talking about talking about tapering”. He said “we’ve said we would talk well in advance and it is not yet time to do so. We still need substantial further progress which will take some time to achieve.” Maybe that’s still accurate in that technically there is still no open and clear discussion on the merits and timing of tapering, but it left one with the impression coming out of the last FOMC meeting that they didn’t even remotely broach the topic. Well, they did.

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In fact, note his use of 'we' throughout, that they didn't even discuss it. Apparently they did as we've learned about somewhat further from the comments issued by FOMC officials since the meeting. Going in, we really only knew that Dallas Fed President Kaplan supported tapering. Maybe St. Louis Fed President Bullard, Governor Waller and possibly Atlanta Fed President Bostic were indicating conditionality of such a view on data over coming months if we stretch it somewhat.

Overall, I think the minutes may have opened the door to the second half discussion toward delivering a taper by Q1 that has been our view for a long time. I wouldn't say this is a big surprise in that the conditionality surrounding the monitoring of several months of payrolls and inflation data was a reasonable expectation and some Fed speakers have said it will take a few months to get 'cleaner' data. But it's a step.

So now, are the minutes stale? I think so, but it partly depends on whether you point to nonfarm or inflation as they went in opposite directions relative to expectations since the FOMC meeting. \*If\* nonfarm starts accelerating with inflation pressures hanging in then maybe by the virtual Jackson Hole or the September meeting the dialogue will heat up. The July FOMC is likely too soon in my opinion because they'll only have a couple more prints for jobs and inflation by then and may need more than that alongside vaccinations and case data plus possible constructive developments in the US fiscal policy dialogue.

So overall, they/we are all data dependent and watching the string of upcoming reports and vaccinations over coming months. Big surprise there. But a) they did indeed discuss tapering if only loosely, and b) there are perhaps more FOMC officials than publicly indicated who are placing pretty high conditionality on a taper decision around upcoming reports. Given the way the Fed tiptoes around a bias shift I would take that as a sign that FOMC discussions will be getting much livelier if data and events unfold favourably in terms of the Fed's dual mandate over the summer.

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