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Powell′s puzzle

Fed Chair Powell should have let the statement do the talking.

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Federal Reserve Chair Jerome Powell may come to regret holding a press conference after each policy-setting meeting. He has already shown a tendency to muddy the waters. In November 2018, he backed away from hawkish remarks he made in October, but that was not followed by an expected dovish December FOMC statement. It probably would have been wise to let Wednesday's policy statement do the talking.

In the presser, he said, "My colleagues and I have one overarching goal to sustain the economic expansion." Hmmm. I thought the Fed had a dual mandate to achieve maximum employment and stable inflation. This is not nitpicking. There is a real difference between working with concepts that are at least somewhat quantifiable and having a vague goal.

While the U.S. economy likely has peaked, inflation isn't a problem at present and a weakening global economy looms. It would have been better for Powell to comply with the statement's emphasis on being "patient" and not comment until Fed projections are out in March—especially as much data has been delayed due to the government shutdown. We didn't even get the fourth-quarter 2018 GDP figure Wednesday! Instead he remarked, "The case for raising rates has weakened somewhat." A final reason why

Powell should have deferred to the statement's Fedspeak: he must not be viewed as responding to the market's—or even a president's—desire.

The markets certainly approved of the Fed's unanimous decision to keep rates in the range of 2.25%-2.5% and consider altering the pace of the balance sheet runoff, not to mention explicitly noting it would pay attention to financial and international developments. We still expect two rate hikes this year, but will wait until the dot plot and other Fed materials are released in March to reevaluate the situation. The FOMC has four new voters this year who have shown themselves to be on the hawkish side.

As for cash management, inflows into liquidity products continued across the industry in January, but the amount lessened as volatility fell. We kept our weighted average maturity at 25-35 days for government funds and 30-40 days for municipal and prime funds. Of note to munis is that supply diminished in the beginning of the year, causing those rates to fall, but it started coming back late in January, pushing rates up. And of note to money market funds in general is that the Treasury paid down bills last month, which kept rates on a steady keel. But as it adds supply, yields should rise. In fact, when the Treasury ramps up issuance, rates could fall even if the Fed doesn't take policy action.

One-, 3- and 6-month London interbank offered rates (Libor) slightly fell over January, ending at 2.51%, 2.74% and 2.81%, respectively.

TAGS

LIQUIDITY | INTEREST RATES | MARKETS/ECONOMY

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Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

London interbank offered rate (Libor): The rate at which banks can borrow funds from other banks in the London interbank market. The Libor is fixed on a daily basis by the British Bankers' Association and acts as a benchmark for other short-term interest rates.

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