24 September 2013

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Handicapping the Great Taper Caper

By our own admission, we've just about run out of zany rhymes for "Great Taper Caper" to describe the Federal Reserve's ongoing threat to slow the growth of its monstrosity of a balance sheet, now tipping the scales at more than US$ 3.66 trillion. Let's put that Brobdingnagian figure into perspective. U.S. GDP was estimated to be US$ 16.62 trillion in 2012, meaning the Fed's balance sheet is more than 20% of total annual economic output. Total African GDP for 2012 was estimated at US$ 2.01 trillion, and this means the Fed's financial might is about 80% stronger than the annual GDP of the entire continent of Africa.

Stated differently, the Fed has now accumulated more Treasuries and mortgage-backed securities (MBS) than the total value of publicly-owned U.S. government debt during all administrations from George Washington to Bill Clinton. That incorporates a sevenfold expansion in the Fed's holdings of Treasuries and MBS since September 2008, and the Fed now owns a collective US$ 3.39 trillion in these types of securities. Fannie Mae and Freddie Mac are now controlled by the U.S. government via conservatorships. Before those GSEs were bailed out in September 2008, the Fed's total holdings of Treasuries stood at a mere US$ 479.726 billion – or as they say in African terms – basically everything south of Khartoum.

Oh wait – we've found another (semi-) rhyming word: rapier…as in, Dallas Fed's Fisher shared his rapier wit yesterday when he tore the Obama White House a new backside for botching the Bernanke succession. We've grown accustomed to Texas-infused zippy statements from the Presidents of the Dallas Federal Reserve Bank over the years. Bob McTeer made sure he sprinkled his southern sunshine around the Greenspan Fed, and Fisher – perhaps of a different ideological bent than McTeer – seems to have continued that tradition nicely. During the Q&A session yesterday, Fisher noted Yellen would make an excellent Chairman but quickly added they differ on policy.

Fed kabuki aside, let's handicap The Great Taper Caper. Fisher also indicated the Fed's credibility has been undermined by poor communications regarding its intention to reduce the amount of monetary stimuli (friends, one cannot possibly look at a US$ 3.66 balance sheet and use the singular noun, *stimulus*). Fisher added he "disagreed with (last week's) decision of the committee (to not taper) and argued against it."

New York Fed's Dudley was on the tape yesterday and called for the continuation of monetary accommodation, arguing policymakers must "forcefully" push against U.S. economic headwinds because the economy has failed to evidence "any meaningful pickup" in momentum. That was perhaps a little less vivacious than remarks from the tall Texan, but the New York Fed chief always speaks with a lot of clout. Atlanta Fed's Lockhart called for more dynamic economic growth.

We'll hear Cleveland Fed's Pianalto and Kansas City Fed's George speak today. The former is interesting because she rarely talks in public and the latter is interesting because she's dissented with the FOMC majority several consecutive times. Apparently, hawks fly high overhead Kansas City.

We'll get a lot more in the way of Fedspeak this week with the ever-amusing Kocherlakota due to impress followed by additional remarks from George. Dudley, Evans, and Rosengren will also let us know their latest thinking on the economy. This past Friday, St. Louis Fed's Bullard made the yield curve dance when he suggested the Fed could tack on a Bernanke press conference after the October FOMC meeting if the Fed decides to taper next month. Otherwise, the markets are focusing on a taper in November, December, or January.

The Fed's decision on the timing of the taper will remain data dependent. If the economy remains as unimpressive as Dudley would have us believe, a Q4 taper is not the *a fait accompli* the bond market currently anticipates. Throw in some political wrangling over a possible shutdown of the U.S. government from 1 October and the inevitable negative sentiment that the launch of Obamacare from 1 October will engender, and you have some reasons why personal consumption could falter. The American public doesn't like lame lawmakers anymore than their wallets like escalating health insurance premia.

There you go: we've tidily handicapped the Fed's Great Taper Caper. There's 3.66 trillion reasons why it'll clearly be sometime between now and the 2014 Kansas City Fed's Jackson Hole symposium. We hear Richard Fisher might be available as an emcee if Esther George needs to lighten up table 4 where Carney, Zhou, (insert new Fed Chairman's name here), Draghi, and other esteemed guests dine on braised Wyoming jackrabbit.