

Let's Talk About Talking About Tapering

In the June FOMC, the Federal Reserve's (FED) acknowledgement of the beginning of the "talk about the talk" about Quantitative Easing (QE) tapering during FOMC Chair Powell's post-meeting press conference, as well as the updated economic and interest rate projections, could now set in motion for taper discussion which will lead to the fleshing out of the tapering process of its asset purchase program.

We project the first indicative hint could be released during the Jackson Hole Symposium (26 Aug) and further articulated into a pledge of the taper timeline in the 21/22 September 2021 FOMC.

We now expect the first taper to be carried out in December 2021 and the tapering process will last for nearly 1.5 years until May 2023. Thereafter, we project two 25bps rate hikes in 2023, first to 0.25%-0.50% in June and then to 0.50%-0.75% in December.

FED Begins "Talking About The Talk" For QE Taper

Post-June 2021 FOMC decision, we have revised our Quantitative Easing (QE) tapering timeline and brought forward our FED rate hike expectations to 2023 (up from 2024).

Even though the June FOMC statement was largely within expectations, the factors that shifted our FED policy timeline were FOMC Chair Powell's post-meeting press conference, the updated economic (updated Summary of Economic Projections) and interest rate projections (Dot plot chart).

- 1. Inflation while transitory, may be an increasing concern** - The FED, as widely expected, kept its policy rates and asset purchase program unchanged in its June FOMC. It also made no change to its inflation assessment in the FOMC text as it continued to succinctly note that "Inflation has risen, largely reflecting transitory factors" (same as April FOMC).

That said, the most material adjustment to the forecasts was seen for 2021 inflation as both headline and core PCE in 2021 were revised higher, to 3.4% (previous forecast: 2.4%) and 3.0% (previous forecast: 2.2%) respectively. This was not unexpected given the recent price developments, but FED's transitory theme remained intact as the subsequent inflation in 2022 (2.1%) and 2023 (2.2%) were similar to previous forecasts while the long term PCE inflation remains anchored at 2%. (Please refer to Table in our report, [US Jun 21 FOMC: Talk About Taper Talk, With Hikes Brought Forward To 2023](#), dated 17 Jun 2021)

During his post-decision press conference, FOMC Chair Powell while maintaining his mantra that the recovery is incomplete, risks remain and "substantial further progress" still some way off, he highlighted inflation has increased notably in recent months and will likely remain elevated in coming months before moderating. He added that there is upward pressure from rebound in spending and the bottleneck effects putting upward pressure on inflation have been larger than anticipated. He assessed that inflation could turn out to be higher and more persistent than the FED expected, and the central bank would be prepared to adjust policy if inflation expectation moved too high. He also did not dismiss the possibility that inflation will stay high for longer than expected, and feed into expectations, and that by 2023, the FED views that inflation will be higher in relation to high employment. **All these comments signaled a hawkish outlook for inflation, in our view.**

2. **Shifting rate hike expectations towards 2023 among FOMC participants** – According to its updated June summary of economic projections and its Dot plot chart, the FOMC will still keep its policy rates at 0.0%-0.25% range (median at 0.1%) in 2021 and 2022, but the median view of the appropriate FED funds rate at end-2023 has now moved up to 0.6% (from 0.1% previously in March).

Importantly, the number of the FOMC's 19 participants (including voters and non-voters for this year's FOMC) have turned less dovish: 7 participants now expecting a rate hike in 2022 (up from just 4 participants in March 2021 FOMC) while 13 participants (**a majority**) now expect a hike in 2023 (up from 7 in March). Of this majority, 11 participants expect at least two 25bps rate hikes.

During the press conference, Powell noted that many participants forecast conditions for lift-off will be met sooner than previously thought although he was also quick to clarify that the Dot plot projections do not represent a committee decision or plan. That said, the bias for rate normalization has clearly shifted away from the previous line in the sand (i.e. 2024).

3. FOMC Chair Powell is shifting position too – That's right. Powell looked like he has shifted from his previous position of "**it is not time yet**" to begin talking about QE taper, to acknowledging that officials discussed the cutting back on its bond-buying program at the June FOMC, characterizing it as "**talking about talking about**" meeting.

Powell noted "*assuming that is the case (of continued progress ahead toward that objective), it will be appropriate to consider announcing a plan for reducing our asset purchases at a future meeting. So at coming meetings the committee will continue to assess the economy's progress toward our goals and will give advanced notice before announcing any decision. The timing, of course, will depend on the pace of that progress and not on any calendar.*"

Another important point was that Powell viewed that **progress toward the FED's dual employment and inflation goals was happening somewhat faster than anticipated**. He particularly noted the sharp rebound in growth that now has the FED seeing GDP growth at 7% in 2021.

FOMC Outlook –
QE Tapering Could
Now Happen By
End-2021, Rate
Hikes By Mid-2023

While the latest June FOMC statement contained no surprises, the comments from Powell's press conference and the updated economic and interest rate projections, suggest to us that there is a shift forward in the FED policy timeline. The beginning of the "talk about the talk" of QE taper could now be set in motion for taper discussion which will lead to the fleshing out of the tapering process of its asset purchase program.

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This is premised on the return to economic/social normalcy on the continued successful rollout of vaccinations across the US, additional US stimulus in the form of Biden's infrastructure spending, the continued jobs recovery in the current cycle (which remains about 7 million jobs below pre-pandemic level but is picking up pace in recent months), and barring a serious resurgence in COVID-19 infections and deaths due to COVID-19 variants. If all these factors remain in place, and with the US economy, jobs market and inflation continue their uptrend, then the taper talk will quickly become more than just "talk".

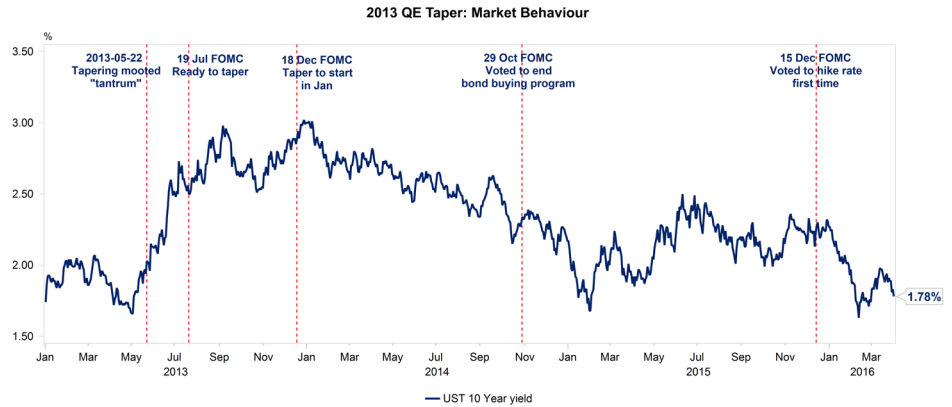
Our Revised Projected Schedule And Quantity For Fed's QE Taper & Rate Hike (As of 17 Jun 2021)

Date	Mortgage-Backed Securities (US\$bn)	US Treasuries (US\$bn)	Total mthly QE (US\$bn)	Target for Fed Funds Rate (%)	Events/Data to watch
2021					
June	40	80	120	0.0-0.25	FOMC*
July	40	80	120	0.0-0.25	FOMC
August	40	80	120	0.0-0.25	Jackson Hole
September	40	80	120	0.0-0.25	FOMC*
October	40	80	120	0.0-0.25	
November	40	80	120	0.0-0.25	FOMC
December	30	60	90	0.0-0.25	FOMC* - First Taper
2022					
January	30	60	90	0.0-0.25	FOMC
February	30	60	90	0.0-0.25	
March	25	50	75	0.0-0.25	FOMC*
April	25	50	75	0.0-0.25	FOMC
May	25	50	75	0.0-0.25	
June	20	40	60	0.0-0.25	FOMC*
July	20	40	60	0.0-0.25	FOMC
August	20	40	60	0.0-0.25	Jackson Hole
September	15	30	45	0.0-0.25	FOMC*
October	15	30	45	0.0-0.25	
November	15	30	45	0.0-0.25	FOMC
December	10	20	30	0.0-0.25	FOMC*
2023					
January	10	20	30	0.0-0.25	FOMC
February	10	20	30	0.0-0.25	
March	5	10	15	0.0-0.25	FOMC*
April	5	10	15	0.0-0.25	FOMC
May	5	10	15	0.0-0.25	
June	0	0	0	0.25-0.50	FOMC* - 1st FFTR rise to 0.25-0.50% in 2Q 2023
July	0	0	0	0.25-0.50	FOMC
August	0	0	0	0.25-0.50	Jackson Hole
September	0	0	0	0.25-0.50	FOMC*
October	0	0	0	0.25-0.50	
November	0	0	0	0.25-0.50	FOMC
December	0	0	0	0.50-0.75	FOMC*- 2nd FFTR rise to 0.50-0.75% in 4Q 2023

* Meeting associated with an updated Summary of Economic Projections
Source: UOB Global Economics & Markets Research Estimates

A Look Back To 2013's QE Taper Timeline

Source: Macrobond, UOB Global Economics & Markets Research



June 2021 Vs March 2021 Dot Plot Chart Rate Comparison & History Of Past Projections

Source: The Federal Reserve, Bloomberg, UOB Global Economics & Markets Research (as of 17 Jun 2021)

