

Flash Comment US

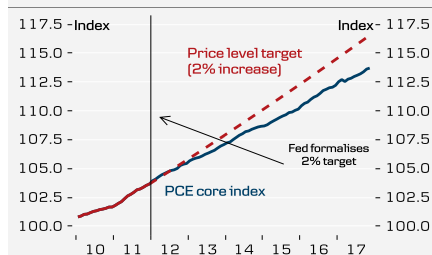
Fed Chair Powell is 'Yellen in disguise' amid discussions about price level targeting

- Yesterday, the US Senate officially confirmed Jerome Powell as the next Fed Chair when Yellen's term expires on 3 February. This was as expected, but it has taken a long time for the Senate to actually approve Powell as Yellen's successor (so long that Trump actually needed to renominate Powell).
- **We expect Powell to stick to the current monetary policy strategy in the short run by raising the Fed funds target range three times this year**, as he has always voted with Yellen and expressed similar views on the economy. The first hike is expected to come at the March meeting, the first meeting he chairs. For more see *Flash Comment US: Fed is set to hike in March and three times this year*, 16 January. The Fed is not expected to move at Yellen's last meeting, which ends on Wednesday 31 January, as this is one of the small meetings without a press conference and updated projections (the Fed has only hiked at the larger meetings). **Markets have priced in a March hike but underestimate the likelihood of a June hike, where we expect the second hike.**
- **In the long run, there is increasing discussion among Fed members about whether to change the 2% inflation target to a price level target over the next few years** in order to get ready for fighting the next crisis whenever it comes. Powell is expected to set up a subcommittee, which will dig into this. For more about a possible regime shift to a price level target see *Research US: The subtle push for a price level targeting continues*, 3 January.
- **One problem though is that Powell is less qualified than his predecessors** (he is a lawyer not an economist) and the full FOMC is becoming more inexperienced, as besides a new Fed Chair there are also many new Fed governors on the board (Trump still needs to nominate a Fed Vice Chair and two ordinary board governors while Marvin Goodfriend has not been approved yet). This is not necessarily a problem when the Fed runs on autopilot but may be a problem if the economy is hit by a shock in either direction (an economic downturn or overheating) or in discussions about changing the long-run framework as mentioned in the previous bullet. **We have previously argued that a more inexperienced Fed might be a drag on the dollar**, see *FX Edge: Inexperienced Fed to be a drag on the dollar*, 30 November.

Recent US research

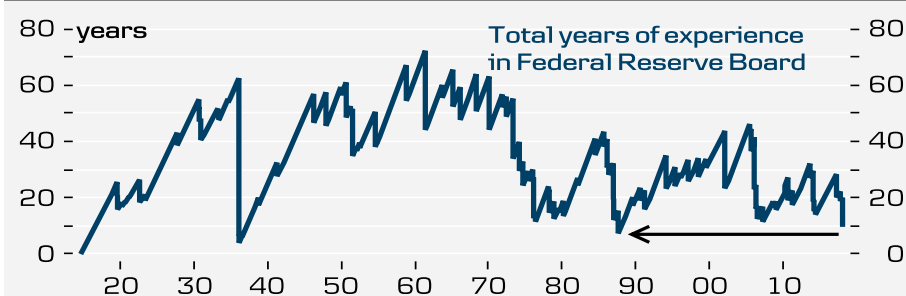
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Fed may shift to a price level target



Source: US Treasury, Macrobond Financial

Fed becomes more inexperienced under Powell



Source: Federal Reserve, Macrobond Financial, Danske Bank calculations

Senior Analyst
Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Mikael Olai Milhøj, Senior Analyst.

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