

Pre Bernanke Report to Congress

The market will be awaiting Bernanke's pronouncements this Wednesday in his monetary policy report to Congress. Ben will likely have prepared two speeches, one hawkish and the other dovish. Almost a month ago Bernanke telegraphed the Fed's intention to eventually taper off QE. Since then the Fed has prevaricated and indicated that monetary policy would be accommodative. Bernanke himself talked a dovish position as recently as a week ago. Today, Bernanke is likely to be hawkish in his report to Congress.

Employment, manufacturing, capacity utilization, personal income are all up. The stock and bond markets were initially roiled by his June 19 comments about QE tapering but have since taken this eventuality in their stride. The market is therefore well placed to tolerate another hawkish signal from the Fed.

The risks are that we are in the middle of earnings season and earnings could disappoint. The market is unlikely to fare well under the cosh of both weaker earnings and tighter monetary policy. Also, inflation is perking up, ever so slightly, but it is perking up.

On balance, however, conditions are sufficiently benign that Bernanke can deliver a hawkish signal at this turn. It will be a sequence of hawkish and dovish signals yet before the Fed actually moderated asset purchases. If the market becomes sufficiently desensitized, the QE tapering may go ahead as planned in September.