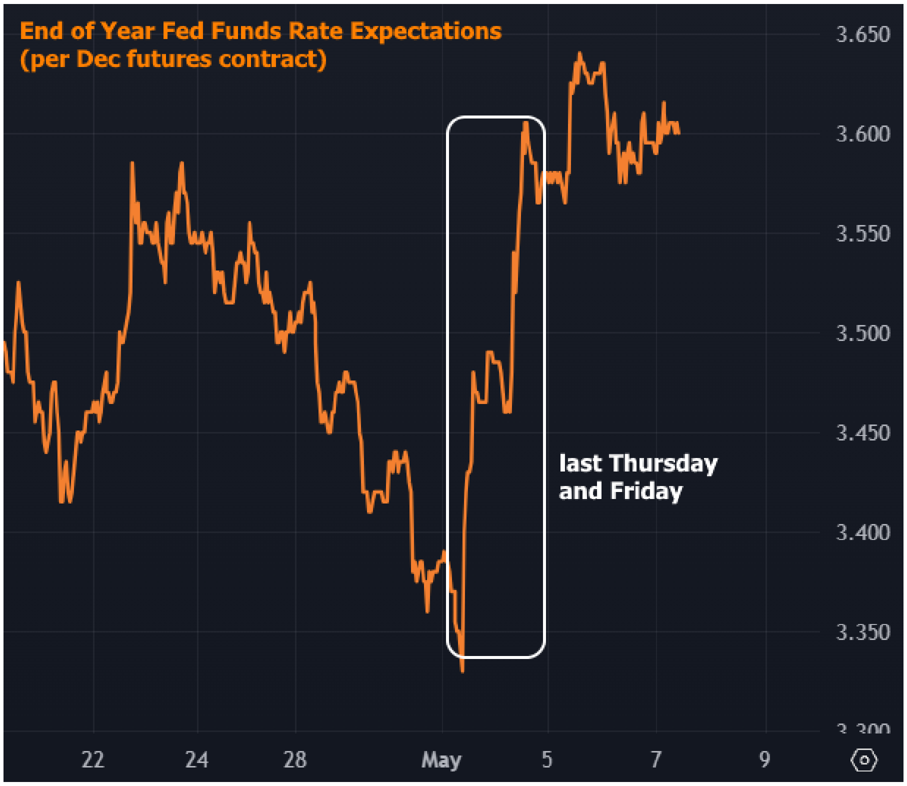
The Day Ahead: Not Expecting Fireworks From The Fed

Wednesday begins with bonds battling back from modest overnight weakness (now moving into modestly stronger territory), but not for any particular reason. End of year Fed Funds Rate expectations have been almost perfectly flat so far this week after falling a quarter point in the last week of April, and then jumping more than a quarter point at the end of last week.



That's a script for Powell's press conference today: a tale of two mandates. On the one hand, there are easily imaginable scenarios that result in rate cuts. On the other hand, there is inflation-related uncertainty stemming from tbd trade policy. Last week's stronger-than-expected econ data added to the indecision.

Powell can't consider cutting or hiking at the moment, and he can't communicate the reasons for that much differently than he already has. All that having been said, sometimes the market is just looking for an excuse to make a move on Fed days. So despite the fact that we don't expect any stunning revelations, volatility can't ever be ruled out.

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