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The Fed Makes No One Happy

The hoped-for "dovish hike" isn't very dovish at all, sending markets reeling.

The Fed did just what was expected. Unfortunately, it didn't do what was hoped.

That the Fed would raise a quarter-point today was an odds-on favorite, and they did just that. But many market watchers had hoped, even expected, that Powell & Co. would temper that hawkish move with some dovish commentary about their future plans.

In anticipation of such, gold, silver and U.S. stocks were solidly in the green before the Fed's announcement.

But none of it was going to stick today, as the policy statement accompanying the news of the rate hike noted that "The Committee judges that *some further gradual increases* in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term." (Emphasis mine.)

In short, this was not the dovish statement that the market was hoping for.

Then Fed Chair Jerome Powell took the microphone for his press conference and proceeded to rub salt in the wound. Unimpressed, was he, with the stock market's recent sell-offs, and he made clear that neither stock-market declines nor global growth slowdowns would have a very significant effect on the U.S. economy.

So much for the “Powell put” ideas that sprung up after his last public statements that the current fed funds rate was just below the range of estimates for a neutral rate. This notion that the Fed was considering a pause in its rate-hike campaign helped spur the U.S. stock market to its short bouts of recovery over the last couple of weeks, and generally helped push gold moderately higher.

Powell’s statements were too much for either market to take. The Dow, for example, took a swan dive as Powell spoke that completed an 850-point swing on the day. It closed down 350 points.

Gold immediately fell $4.00 after the Fed announcement and policy statement, then recovered nearly all of it...before tumbling once again. It continued to weaken as Powell spoke.

For the record, spot gold dropped $6.70 (0.54%) to $1,242.30 bid, completing about a $10 swing for the day. Silver fell $0.04 (0.27%) to $14.56. Platinum lost 5.00 (0.63%) to $784, while the juggernaut that is palladium finally surpassed gold, gaining $17.00 (1.38%) to $1,245.

The gold stocks exacerbated gold’s losses: The XAU fell 5.67%, the Gold Bugs Index (HUI) lost 5.83%, the GDX dropped 5.41% and the GDXJ lost 4.79%.

I think that, to a large extent, the policy statement and Powell’s comments were driven by Trump’s attacks on the Fed’s rate-hike campaign. If not indignation, the Fed wanted to at least show indifference to the president’s opinions on monetary policy, and to establish that there’s a new sheriff in town who isn’t going to react to every stock market hissy fit.

All this is OK with Trump, of course, as he was only looking for a scapegoat in case the economy starts to really weaken. He got just what he wanted.

And the FOMC’s supposed unconcern with the stock market had a bit of bluff and bluster to it as well, because the reality is that a weak stock market *will* have a deleterious effect on the U.S. economy.

So I'd advise that we not read too much into anything either Trump or Powell may say. The forces at work right now will demand action in the weeks ahead...or inaction in the case of the Fed.

In regard to gold, I'm not surprised by its reaction. We've seen this before — in the immediate wake of some of the past Fed hikes during this tightening cycle, gold has dropped as some speculators play the "sell the news" angle. But in every instance, the metal has subsequently recovered and begun a significant rally, with the delay being anywhere from a day or two to a couple of weeks.

I'm still confident that we'll see a similar pattern play out, particularly in regard to the last three December rate hikes. In all three instances, gold started rising shortly after the Fed's move, with the 2016 and 2017 early-year rallies lasting months, while this year's beginning move higher only lasted about a month.

Let's hope we get a performance more in line with the first two examples.

As far as our favorite junior resource stocks go, there's been little to no news. And we shouldn't expect any with the holiday season in full swing. If at all possible, companies will want to hold important news until the new year, rather than waste it in on an inattentive marketplace.

Thus, unless unexpected very important news breaks, this will be our last missive of the year.

And so, let me wish you a very Merry Christmas, a wonderful holiday season and a happy, healthy and wealthy new year.

— Brien Lundin