



FX Daily

Trading patterns surrounding the FOMC minutes

- The FOMC minutes have proved important in bridging the gap between what the dovish Fed leadership are thinking, and the evolving view among other FOMC members.
- 10y yields have gone up on ten consecutive FOMC minutes release days. This strong pattern for higher bond yields on FOMC minutes release days, occurs after FOMC's Economic projections and press conferences, or absent these events
- The USD Trade-weighted index versus major currencies, has been up on 11 of the last 13 FOMC minutes release days, suggesting the bearish bias in US longer-dated yields has largely translated to a stronger USD.
- A clear evolution to the hawkish side among FOMC 'rank and file' is more likely to be evident in the July FOMC meeting minutes, assuming another strong payrolls report next month. As important as these minutes are they are about to get a good deal more interesting in the wake of the next one or two meetings.

After the introduction of the post-FOMC press conference, the FOMC minutes were expected to become a dated relic, generating limited market reactions, but this has been far from the new reality. Instead, the FOMC minutes have proved important in bridging the gap between what the dovish Fed leadership are thinking, and the evolving view among other FOMC members. As one example, it was the FOMC minutes, particularly comments in the Summary of Economic Projections (SEP), that provided the earliest warnings that a large number of FOMC members were clamoring for an early taper, well ahead of the signal provided by Bernanke last June.

Table 1: Asset response to FOMC Minutes releases (changes during the day)

	S&P 500 (% change)	10 yr yield (change in bps)	EUR/USD (% change)	USD/JPY (% change)	AUD/USD (% change)	USD TWI (% change)	VIX (change)
July 10, 2013	0.02	3	1.52	-1.48	-0.07	-0.50	-0.14
August 21, 2013	-0.58	7	-0.45	0.41	-1.11	0.51	1.03
October 9, 2013	0.06	2	-0.35	0.49	0.22	0.54	-0.74
November 20, 2013	-0.36	9	-0.74	-0.11	-1.05	0.15	0.01
January 8, 2014	-0.02	5	-0.30	0.22	-0.27	0.31	-0.05
February 19, 2014	-0.65	3	-0.18	-0.04	-0.29	0.22	1.63
April 9, 2014	1.09	1	0.44	0.18	0.28	-0.14	-1.07
May 21, 2014	0.81	2	-0.12	0.04	0.09	0.27	-1.05
Median	0.00	3	-0.24	0.11	-0.17	0.25	-0.09
Average	0.05	4	-0.02	-0.04	-0.27	0.17	-0.05

Source: Deutsche Bank, EcoWin, FOMC



In the same vein, the evolution of moderate FOMC participants turning more hawkish is expected to show up in the minutes partly through the classic FOMC parlance, as more hawkish comments evolve from being attributed to a 'few' participants to 'several' to 'most'. The anonymous nature of the comments in the minutes has very likely contributed to the minutes having a greater impact than if the comments had clear attributions.

Table 1 above shows some strong trends on the days when FOMC minutes are released, including:

1. 10y yields have gone up for 10 consecutive FOMC minutes release days. For longer than a year, the back-end seems to always be able to find something in the minutes that it does not like. (See Table 2)
2. Another pattern is a tendency for some partial bond market retracement to the bearish FOMC response in the 5 days after the initial reaction. 10yr yields have gone back down in the 5 trading days after the first day of release, after 7 of the last 8 FOMC minutes. Note that the median change in the 2yr has been zero on FOMC minutes release days and in the 5 days after, a sign that in the past FOMC did not significantly shift very short-term rate expectations. Of course the closer we get to a rate hike, the more sensitive the front-end will become, and the 2yr would be expected to be at least as sensitive as the 10yr into 2015.

Table 2: 10 yr yield performance surrounding FOMC minutes releases (daily changes in bps)

FOMC minutes release date	Prior 5 day average	Day of release	5 days after release average
May 18, 2011	-2	6	-1
July 12, 2011	-6	-3	0
August 30, 2011	3	-8	-4
October 12, 2011	7	6	-1
November 22, 2011	-2	-3	1
January 3, 2012	-3	8	0
February 15, 2012	-1	-1	2
April 3, 2012	-1	10	-6
May 16, 2012	-1	-1	0
July 11, 2012	-3	1	0
August 22, 2012	1	-10	-1
October 4, 2012	0	5	0
November 14, 2012	-3	0	2
January 3, 2013	2	7	0
February 20, 2013	1	-2	-2
April 10, 2013	-2	5	-2
May 22, 2013	-1	11	2
July 10, 2013	3	3	-4
August 21, 2013	2	7	-3
October 9, 2013	0	2	0
November 20, 2013	-1	9	-1
January 8, 2014	-2	5	-2
February 19, 2014	0	3	-1
April 9, 2014	-1	1	-1
May 21, 2014	-2	2	-2
Median	-1	3	-1
Average	0	3	-1

Source: Deutsche Bank, EcoWin, FOMC

3. There is a view that most the bond negative information has been concentrated in the Summary of Economic Projections (SEP). Table 4 focuses solely on the quarterly meetings when the SEPs are released with the minutes



and shows that: (i) 10yr yields have gone up on the day of FOMC minutes with SEPs since August 2012, but the median for the yield increase, whether it is the minutes with or without SEPs, does not change. The reason is probably because the FOMC minutes without the SEP are also for FOMC meetings without a press conference, so there is still fresh information in the minutes.

Table 3: Asset response to FOMC minutes releases, only for those meetings when SEP released (changes during the day)

	S&P 500 (% change)	10 yr yield (change in bps)	EUR/USD (% change)	USD/JPY (% change)	AUD/USD (% change)	USD TWI (% change)	VIX (change)
February 15, 2012	-0.54	-1	-0.37	-0.19	0.19	0.06	1.60
May 16, 2012	-0.44	-1	-0.12	0.15	-0.25	0.45	0.30
July 11, 2012	0.00	1	-0.10	0.42	0.64	0.06	-0.77
October 4, 2012	0.72	5	0.88	0.01	0.24	-0.53	-0.88
January 3, 2013	-0.21	7	-1.05	-0.13	-0.37	0.26	-0.12
April 10, 2013	1.22	5	-0.10	0.76	0.54	0.14	-0.48
July 10, 2013	0.02	3	1.52	-1.48	-0.07	-0.50	-0.14
October 9, 2013	0.06	2	-0.35	0.49	0.22	0.54	-0.74
January 8, 2014	-0.02	5	-0.30	0.22	-0.27	0.31	-0.05
April 9, 2014	1.09	1	0.44	0.18	0.28	-0.14	-1.07
May 21, 2014	0.81	2	-0.12	0.04	0.09	0.27	-1.05
Median	0.02	2	-0.12	0.15	0.19	0.14	-0.48
Average	0.25	3	0.03	0.04	0.11	0.08	-0.31

Source: Deutsche Bank, EcoWin, FOMC

4. In the past, the S&P/US risk appetite response has been quite mixed on the day. In much the same way as good data can be viewed as good for equities (strong economy/profits) or negative (higher rates), equities can take positive FOMC comments on the economy as mixed. What we have seen consistently is that the FOMC minutes has not upset the equities trend, with the S&P up 10 days after the FOMC minutes release in 8 of the last 8 meetings.

5. Lastly, the VIX has tended to ease modestly on the day of FOMC releases, presumably because removal of the FOMC minutes event risk is negative for vol.

Table 4: S&P 500 results around FOMC minutes release dates (% change)

	Change during previous 10 days	Change during the day	Change one day after	Change after 10 days
July 10, 2013	2.37	0.02	1.36	2.02
August 21, 2013	-2.47	-0.58	0.86	0.63
October 9, 2013	-2.33	0.06	2.18	5.43
November 20, 2013	1.14	-0.36	0.81	0.64
January 8, 2014	-0.57	-0.02	0.03	0.40
February 19, 2014	1.15	-0.65	0.60	2.46
April 9, 2014	-1.78	1.09	-2.09	0.17
May 21, 2014	-1.30	0.81	0.24	2.11
Median	-0.93	0.00	0.71	1.33
Average	-0.47	0.05	0.50	1.73

Source: Deutsche Bank, EcoWin, FOMC

6. On the currency side, the Fed's USD Trade-weighted index versus major currencies, has been up on 11 of the last 13 FOMC minutes release days, suggesting the bearish bias in US longer-dated yields has largely been translated in orthodox fashion to a stronger USD.


Table 5: USD TWI results around FOMC minutes release dates (% change)

	Change during previous 10 days	Change during the day	Change one day after	Change after 10 days
January 4, 2011	-1.70	0.57	0.66	-0.47
February 16, 2011	0.96	-0.26	-0.45	-2.01
April 5, 2011	-0.13	-0.08	-0.36	-1.07
May 18, 2011	1.35	-0.49	0.07	-0.90
July 12, 2011	1.41	-0.12	-0.97	-2.74
August 30, 2011	-0.55	0.23	-0.08	3.07
October 12, 2011	-2.29	-0.81	0.38	-0.74
November 22, 2011	1.15	0.06	0.96	-0.36
January 3, 2012	-0.18	-0.68	0.57	1.32
February 15, 2012	0.88	0.06	0.00	-0.66
April 3, 2012	-0.19	-0.01	1.00	0.30
May 16, 2012	1.12	0.45	0.09	1.58
July 11, 2012	1.49	0.06	0.22	0.02
August 22, 2012	-0.53	0.15	-0.59	-0.64
October 4, 2012	0.18	-0.53	-0.33	-0.26
November 14, 2012	0.45	0.12	0.09	-0.65
January 3, 2013	0.02	0.26	0.52	-0.12
February 20, 2013	0.61	0.33	0.46	1.76
April 10, 2013	0.06	0.14	-0.41	0.74
May 22, 2013	0.67	0.64	-0.70	-1.60
July 10, 2013	1.12	-0.50	-1.32	-2.10
August 21, 2013	-0.78	0.51	0.40	0.91
October 9, 2013	-0.06	0.54	0.03	-1.05
November 20, 2013	-0.45	0.15	0.32	0.78
January 8, 2014	0.78	0.31	0.09	0.69
February 19, 2014	-0.65	0.22	0.44	0.09
April 9, 2014	-0.58	-0.14	-0.30	0.47
May 21, 2014	-0.06	0.27	-0.03	0.38
Median	0.04	0.13	0.08	-0.19
Average	0.15	0.05	0.03	-0.12

Source: Deutsche Bank, EcoWin, FOMC

7. Interestingly, 10 days after the last 5 FOMC minutes release days the USD has been higher suggesting there is some sustenance to any hawkish FOMC minutes in the FX world, even if the bond market follow-through is limited.

8. While we would have expected the yen to most consistently reflect the strong USD TWI reaction on FOMC days given its greater sensitivity to back-end US yields, we find that the reaction has tended to be more evenly spread. On the day of the last 8 FOMC minutes releases, the EUR has been weaker 6 times, the JPY 5 times and the AUD also 5 times.

As usual with any statistical analysis of this sort, we have to ask the question: is this time different? While it would not be any surprise that the FOMC minutes are a significant hawkish event in the next few meetings, the last meeting took place before the latest strong labor market data. It will probably only take one or two additional months of strong employment reports for this to show up in more (hawkish) urgency. The question is can this wait until the September 17th press conference that is a much better forum for action than Jackson Hole, or could a change in tone start dribbling out in the minutes that follow the July 29-30th meeting or even before this at the July 15th congressional testimony? As interesting as these minutes are they are about to get a good deal more interesting following the next meeting.