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Fed Stays Dovish but GOP less Trumpish

Friday, 4:20 p.m. EDT

The Fed minutes confirmed the tenor of Yellen's news conference: the central bank is in no hurry to raise interest rates. Although the minutes indicated that there is likely a non-voting member that favors an immediate increase (along with of KC Bank President George, who did dissent), the great majority see the risks still tilted towards low growth and subdued inflation.

Indeed on the growth side, Q1 GDP is looking progressively worse. As a result of recent data, estimated growth in the first quarter is only slightly positive and virtually all forecasters have it less than 1%. Recall that at the beginning of the year, 2%-3% estimates were common and that was built into the December Fed forecast. This poor growth figure again flies in the face of robust labor markets. With hours worked up an estimated 1.2% in Q1, productivity growth last quarter is likely, once again, to be below zero. And no one has a good handle on why productivity is lagging so profoundly.

The dovish Fed and lackluster growth has been putting downward pressure on long yields and the dollar. The latter has depreciated 9% against the Euro since late November and a whopping 13% against a surging yen. At this time it is too early for the ECB to take defensive action, but if the yen continues to rise, it is likely Kuroda will institute another round of QE, buying US Treasury bonds in order to force the yen downward. Oil, which had fallen about 10% over the past two weeks, shot up today, with WTI almost reaching \$40 once again.

On the political front, Trump's missteps have caused odds-makers to mark his probability of being nominated down to about even money, just head of Cruz's, and the odds of a locked convention have soared to nearly 4-1. Many insiders believe if the convention goes to a second ballot, Trump's chances fall to one in three or even less. The insurgent candidacy of Bernie Sanders also picked up steam, although Clinton is still a strong favorite at 5-1 for the nomination.

The national matchups are of interest. Clinton trounces Trump by over 10 points, but Cruz by only 3 and she loses to Kasich by almost 7 percentage points. Sanders performs far better than Clinton, besting Trump by over 16 points, Cruz by over ten, but just ekes out a 2.7% victory over Kasich. It is ironic that the long shots of each party convincingly poll the strongest for the November elections.

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