GoldFix on What Triggers a Fed Pivot

Regarding a rate pivot: The Fed basically echoed-itself for the last few weeks, Zoltan's comment a few months ago, and our belief the Fed would not even think of reversing policy until we had 2 good data points of low inflation. We have had only one of those so far.

Worse, given the German PPI data, the Fed may now be looking for 3 low inflationary points before pivoting. We think the best way to look at this is "Not Pivot, Pause" now. Unless we get fantastic data on inflation, we think any rallies you get on recessionary data releases will be met with more of the same.

Meaning: in the competing narratives affecting stocks now, they will rally if we get recessionary data only to get smacked down when the Fed reasserts its inflationary hawk priorities. So forget talk of bull market or bear market. The headline will change daily. **The Fed has given no indication that it will be backing off hawkish behavior at all until it gets much improved data on inflation *or* much worse data on recession.** Otherwise, short an exogenous event, the market is smoking dope.

Fed Pivot Matrix

In May after reading Pozsar's missive (he is their current darling) we opined: *It (the recession) could get bad, very bad. The alternative (inflation) may be much much worse*. So far the recession itself is bifurcated and not affecting employment, although that will change. Therefore it is smart to revisit our "Fed Pivot Matrix". We reiterate and consolidate our 4 reference points presently.The Fed will consider reversing if:

1- Unemployment gets to 5% plus…

> *Either inflation normalizes at a significantly higher baseline, unemployment normalizes as being "full employment" closer to 5 or 6%, or we get a torrid stagflationary recession worse3 than the 1970s 2% Inflation a Fairy Tale- July 28th*

Nothing to add or change here so far

2- Inflation drops precipitously…

> *Our guess is we need a recession print followed by 2 data points of shrinking inflation.- Fed Raises 75 bps- July 27th*

Refining what was said then since we already are in a technical (and ignored) recession: We need 2 or 3 successive very good Inflation data points. Especially with EU inflation out of control

3- Stocks Crash…

This is a tough one and has as much to do with speed of descent as with actual price.

> *We think the fed isn't targeting stock price. It's targeting inflation. And unless stocks drop too fast, they will be content to wait to stop the descent. Still, they must be using some historical reference.- To Get Inflation Down- Zoltan Pozsar May 21*

Referring to our analysis in May, we thought 3500 would be when the Fed actually did something. That is still a solid number, but given the recession is not affecting unemployment materially yet, it may be 3500 if we drop fast, and something like 3200 if we drop slowly.

4- GDP/Economy Crashes…

We have no real good feel for this one and hesitate to throw a careless number at you. But there is a number they will panic on. We just do not see any hint of it in our research. It might be easier to see it through the lens of some credit event (some one blows up) happening which will then affect GDP.

But unless some combination of the above 4 events transpire, it would be dangerous to even think of the phrase "Dovish pivot".

The Trading Bias

So until we get 5% unemployment, inflation below 4% or stocks dropping in a hurry below 3500, we will be actively biased trading this by selling rallies based on technical levels and flows. But we will not be greedy lower. **At some point the Fed will capitulate, and then QE 5 starts which will be infinity and beyond; first for stocks, and then for Gold and Silver. Shit, we may even buy miners!**

Until Then However