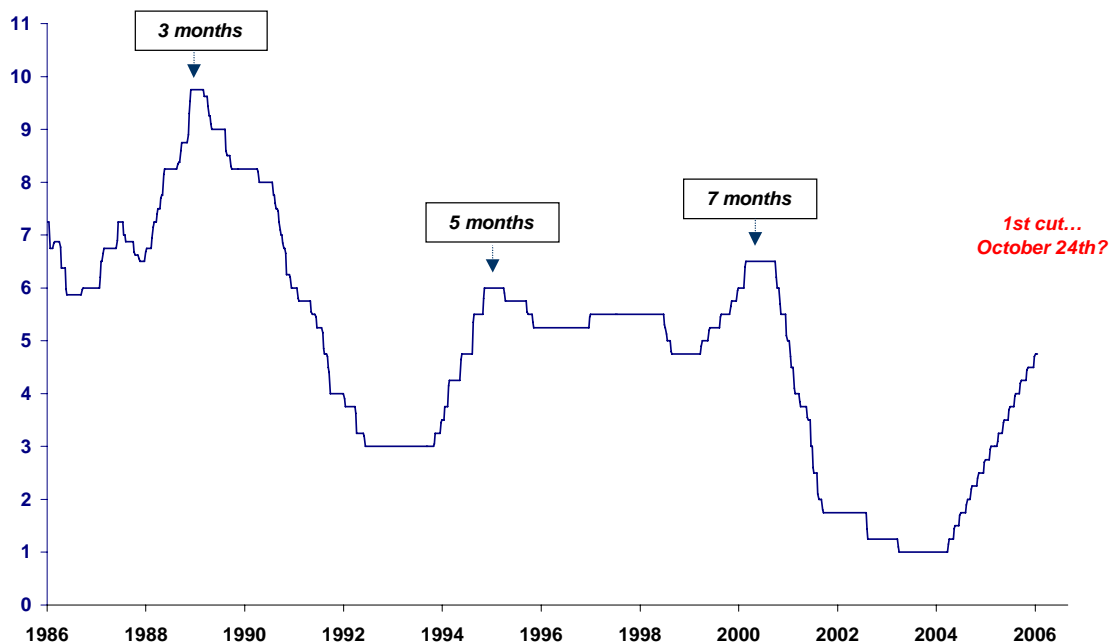


Fed Funds Rate

Average Lag Between Last Hike and First Cut = 5 months



Trick or Treat...?

Which is it going to be? It is with breath bated that we await the FOMC statement this week. Soon we will find out if Ben was just tipsy when he whined to Maria about being misunderstood or whether he is actually having second thoughts about the Fed's new data-driven dogma. While we cannot comment on the former (!), the latter seems a real possibility. After all, **the CPI is all but guaranteed to march higher as the Owner's Equivalent Rent component follows the upward path blazed by mortgage rate** (as highlighted in last week's "Too Cool for School"). With the air hissing from the housing bubble now so audible even investors in homebuilder stocks have started to get unnerved, **unless he disavows the data, Ben could find himself forced to tighten into a housing bust.**

While any softening of language will probably suggest a 'pause', **this would be unprecedented in the Greenspan Era.** Each major tightening campaign in the last 20 years has seen rates rise in uninterrupted fashion only to be felled with equal haste. **The average time lag between the last hike and the first cut is a mere 5.3 months.** So, assuming this week's move turns out to be the last, the Fed could be *cutting* rates by Halloween — (at their October 24th meeting).

Eager as the markets will be to receive this 'treat', to the extent that dollar strength has been the key to the global liquidity dynamic, we suspect they'll end up being tricked instead.