QUICK NOTE: *POWELL: IT'S A GREAT TIME FOR ~~FED~~ RISK ASSETS TO ^NOT BE PATIENT

There will be a surplus of commentary on the FOMC, from every and any angle, so I wont dig too much into the details. However, below are some takeaways, as it pertains to metals, with graphs 1 & 2 just providing a quick & dirty outline of macro assets that performed during the past Fed pauses — the shorter mid-cycle pause in 2016 and the prolonged/end of cycle one in 2006-7.

- **The headline was a home run dovish move**, on both accounts. 1) There will be no rate hike in 2019 (the market was arguably 'positioned' too dovish, pricing in 1 hike in 2019 and 1 in 2010, and they catapulted over these expectations) and 2) Their Balance Sheet is due to end earlier than expected in September AND proceeds from maturing MBS will be reinvested into Treasuries similar to Op Twist (a head nod to "new tools" some Fed officials have hinted at?). Real assets will become increasingly relevant as a hedge against paper /stocks and protection against super dovish Fed responses which risk stagflationary outcomes.
- **The markets lead, the Fed follows**: The Fed Dot plot shifted to 2.375 in 2019 (from 2.875) closer to where OIS and Fed Funds futures (expectations) were. Overall, the dots suggest the Fed is around 1 hike away from neutral / cycle top, but again the market will now begin pricing in cuts sooner, rather than later with little-to-no acknowledgement of cuts.
- **The Feds dovish hike in December**—which was interpreted as "not dovish enough" given the subsequent tantrum in risk asset prices—feels like an important inflection point that jolted the FOMC. Theres a need to exceed dovish monetary expectations. Factor in that they hinted at a long pause before a one-and-done final hike in what would be a very contentious election year, and the final hike looks increasingly unachievable. Market consensus will begin drawing parallels to the 2006/2007 late cycle long pause (vs the temporary 2016 Fed pause). See charts on page 2 of macro asset performances during those periods.
- **A Global Fed not a US Fed:** Powell acknowledged "risks include Brexit, Trade talks" but "US outlook is positive and favorable" with "data not currently sending a signal on policy move". SPX is up >10% since the December FOMC, with UE at 3.8%, CPI at 2.2% and US growth relatively rosier (albeit slower). There is now a distinct greenlight for other major CBs to reinforce the growing theme of a *global* dovish policy shift (see past note here), which would further boost the appeal for underweight EM/ EMFX assets providing tailwinds for base metals.
- **The fine (growth) print:** similar to the Feds pause in January and subsequent growth downgrades from other CBs, many will question what the Fed knows or is worried about that has spurred the need to provide this super dovish tilt. If *global* growth is a larger underlying threat than what financial assets are saying, can old tricks, which didn't seem to sustainably work post GFC, work this time around.

There is now a 9 month greenlight for all risk assets. Again, this global policy shift and the idea of a prolonged Fed pause leading to a cut, is cyclically bullish real assets (metals), but, not all metals will rise equally, especially given the downgrades to growth profiles. There will be outperformers in the longer run during this late cycle - rate-sensitive & growth hedges (Gold) and fundamentally tighter metals (Palladium, Copper). In the short-term, the high beta high-fliers like Silver, Nickel & Zinc—which historically outperformed during both the 2016 and 2006/17 rate pauses – are the ones most likely to trek paper assets and attack upsides.

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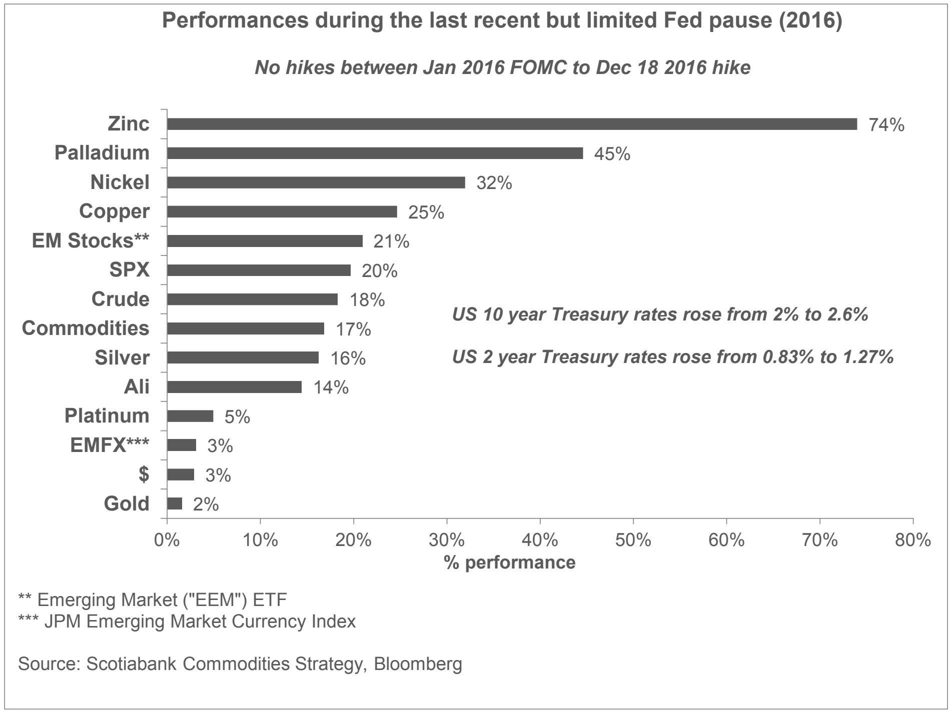
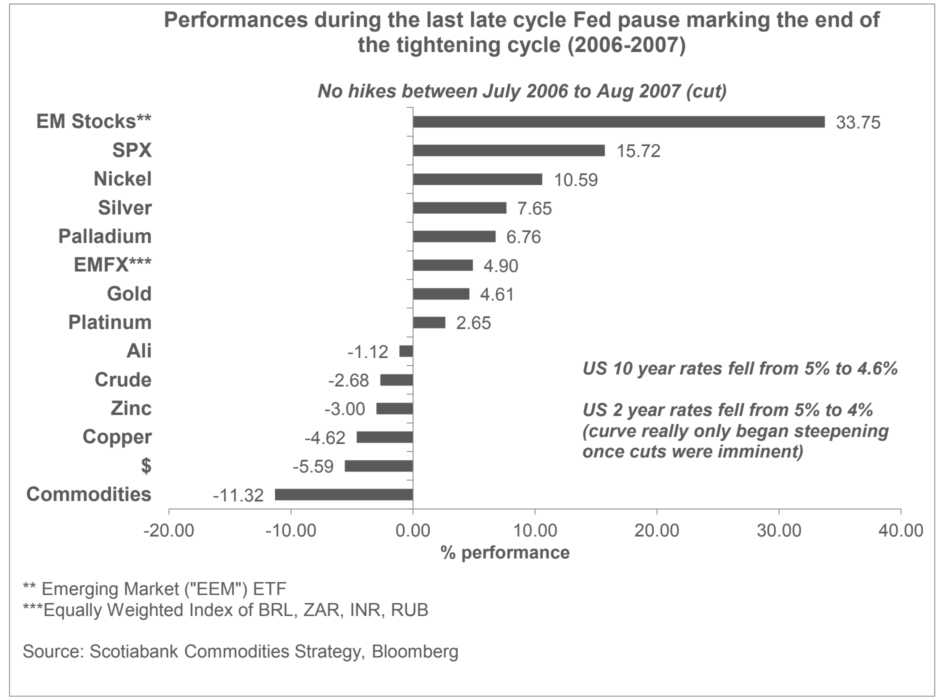

Performances during the last recent but limited Fed pause (2016)
No hikes between Jan 2016 FOMC to Dec 18 2016 hike
Zinc 74%
Palladium 45%
Nickel 32%
Copper 25%
EM Stocks** 21%
SPX 20%
Crude 18%
Commodities 17%
Silver 16%
Ali 14%
Platinum 5%
EMFX*** 3%
$ 3%
Gold 2%
US 10 year Treasury rates rose from 2% to 2.6%
US 2 year Treasury rates rose from 0.83% to 1.27%
0% 10% 20% 30% 40% 50% 60% 70% 80%
% performance
** Emerging Market ("EEM") ETF
*** JPM Emerging Market Currency Index
Source: Scotiabank Commodities Strategy, Bloomberg


Performances during the last late cycle Fed pause marking the end of the tightening cycle (2006-2007)
No hikes between July 2006 to Aug 2007 (cut)
EM Stocks** 33.75
SPX 15.72
Nickel 10.59
Silver 7.65
Palladium 6.76
EMFX*** 4.90
Gold 4.61
Platinum 2.65
Ali -1.12
Crude -2.68
Zinc -3.00
Copper -4.62
$ -5.59
Commodities -11.32
US 10 year rates fell from 5% to 4.6%
US 2 year rates fell from 5% to 4% (curve really only began steepening once cuts were imminent)
-20.00 -10.00 0.00 10.00 20.00 30.00 40.00
% performance
** Emerging Market ("EEM") ETF
***Equally Weighted Index of BRL, ZAR, INR, RUB
Source: Scotiabank Commodities Strategy, Bloomberg

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