From: Ben Hunt [mailto:ben.hunt@epsilontheory.com]
Sent: Friday, June 21, 2013 2:55 PM
To: 'ben.hunt@epsilontheory.com'
Subject: Epsilon Theory: the Narrative battle is joined

I promise that it's not my usual practice to send out emails every day, but it's not every day that you see such archetypal efforts at Narrative formation taking place in real time.

At 6:08a this morning St. Louis Fed President James Bullard released a statement detailing why he dissented from Wednesday's FOMC decision on dovish grounds. You can find the full text on the St. Louis Fed's website and judge for yourself, but what's notable to me is the act of publishing a formal dissent as well as the stridency of Bullard's language within the usually staid context of Fed-speak. He "found much to disagree with in this decision" and even invoked the C-word – credibility – in his criticism. To suggest that the FOMC might have a problem in its efforts "to maintain credibility" with Wednesday's announcement is the Fed-speak equivalent of going nuclear.

Bloomberg picked up the release of the Bullard's statement (the only FOMC member to make a statement since Weds) but didn't give it much attention. The WSJ even less.

But then the market goes down from the opening bell. So much for the "Rebound in Stocks" promised by the WSJ before the open, a story which became "Stocks Give Back Gains" soon afterwards.

At 10:15a the FT published an article about Bullard's statement titled: "Bernanke decision 'inappropriately timed', says St. Louis Fed".

At 11:20a Bullard gives a telephone interview to Bloomberg. Naturally, Bloomberg gives this interview a lot more space than the earlier statement, and is keeping a story titled "Bullard Says Fed May Need to Boost Asset Buying If Inflation Slows Further" on its Top Stories list as I write this note.

At 11:57a the WSJ publishes an article titled "Bullard's Unusual Dissent" in its MoneyBeat section.

The market at least stops going down after Bloomberg and the WSJ trumpet the Bullard interview, hitting its lows for the day at 11:31a, but the march up doesn't begin until about 12:45p in anticipation of a WSJ article (the WSJ typically publishes its major Opinion-Leading-Masked-As-Analysis pieces at 1p).

Sure enough, at 1:01p the WSJ publishes an article by Jon Hilsenrath titled "Analysis: Markets Might Be Misreading Fed's Messages" and the market completes its resuscitation, moving to +40 bps on the day soon after this article comes out. "Stocks Give Back Gains" becomes "Stocks Try to Regain Footing."

How can a WSJ writer move the market so much more than the St. Louis Fed President? Because everyone knows that everyone knows that Hilsenrath is the Fed's favorite print media mouthpiece. This is the market's Common Knowledge about how Fed intentions are revealed. In the Bizarro-market that we must all endure, divining Fed intentions third-hand through Hilsenrath's "analysis" is more informationally influential than hearing the St. Louis Fed President's beliefs directly!

So is this enough to change the Narrative? No. The only person with enough informational “juice” to undo the inflection point that occurred on Wednesday is Bernanke himself, and even then it would require a wholesale dismantling of prior communications linking unemployment thresholds to QE tapering. That’s not something that this lame duck Chairman is going to do outside of a regularly scheduled FOMC meeting unless things get a whole lot worse.

But it is enough to stop the bleeding for today. And you can expect the usual suspects like Hilsenrath and Bullard to be trotted out for media consumption every time the market gets squirrelly for a few days. In the immortal words of Zippy the Pinhead, “Are we having fun yet?”

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