[text] Source: ACFX Forex Broker (Review and Rebate Program)
Once again the Federal Open Market Committee will take centre stage with Janet Yellen this evening due to deliver another eagerly awaited FOMC Statement. This event which takes place 8 times a year will be monitored closely by traders and investors alike. In recent times, the FOMC Statements post the 2008 financial crisis has gained greater significance as a major event on the economic calendar. This is due to the Federal Reserve, much like other major central banks such as the Bank of England and ECB, actively using "forward guidance" as a major policy tool. By means of "forward guidance" and through a careful manipulation of what I term as "Fed Speak" the FOMC has been able with some degree of success manage market expectations. However with equity markets trading at the highs of this strong bull market there are major concerns surrounding the aftermath of an expected Fed tightening of interest rates that could take place as early as this summer. A US interest rate increase will signal the end the recent era of cheap money. After some 7 years where investors made easy profits due to ideal market conditions, it will be of interest how market participants will react and adapt to a period of normalized interest rates. Many traders and investors remember the times when global interest and inflation rates were much higher than they are today. However there are many traders, investors, hedge fund and portfolio managers who due to their age have never experienced periods of rising interest rates. Furthermore, many of the trading algorithms that are being used

currently, are based upon the present market conditions. Can these same systems be optimized to allow for periods of greater interest and inflation rate differentials across the world economy? Back to today's events and the FOMC has become rather data dependent. Furthermore the recent trend in data be it job, inflation or growth numbers has been inconsistent and erratic. The soft to trend less nature of the data that has been released to the markets thus far makes trying to discern what the Federal Reserve's intentions are very difficult to comprehend. In fact does the FOMC chairwoman Janet Yellen herself know with any certainty when to flick the switch and raise interest rates? Furthermore is there any type of consensus among the other decision makers of the Fed. I would be very surprised if the FOMC decides to raise interest rates this evening. There is a stronger possibility that we see a rate hike in September / October. For this to happen we will need better and more consistent data which would enforce a more hawkish outlook on interest rates. My gut feeling is that the FOMC will begin to normalize the interest rate picture in Q1 of 2016. Such a more cautious approach would suit the equity markets and give more time for all market participants to adapt to the new interest rate reality. As for what I expect to happen today, I would not be surprised if leading up to the FOMC event that market volatility to drop off. However volatility should come back into the market after the statement is made. As the Fed wants to move on interest rates I see the US Dollar strengthening in the medium term. However there may be a dip lower after the statement if as expected interest rates are kept on hold. With respect to the EURUSD there has been much resilience with the Euro holding firm despite all the negative headlines that surround Greece. The key area of 1.1400 / 1.1500 continues to be a target that could be tested. [/text]