HAPPY STATE BANK DAY TO ALL

SBI Research

F.E.D. Confidential

Fearless, Enigmatic and Defiant….

Fed's playbook under Kevin Warsh seems poised for a pot boiler that can break or make the way Central Banks and broader markets function and fight for superior relevance in an age of disruption and shifting narratives

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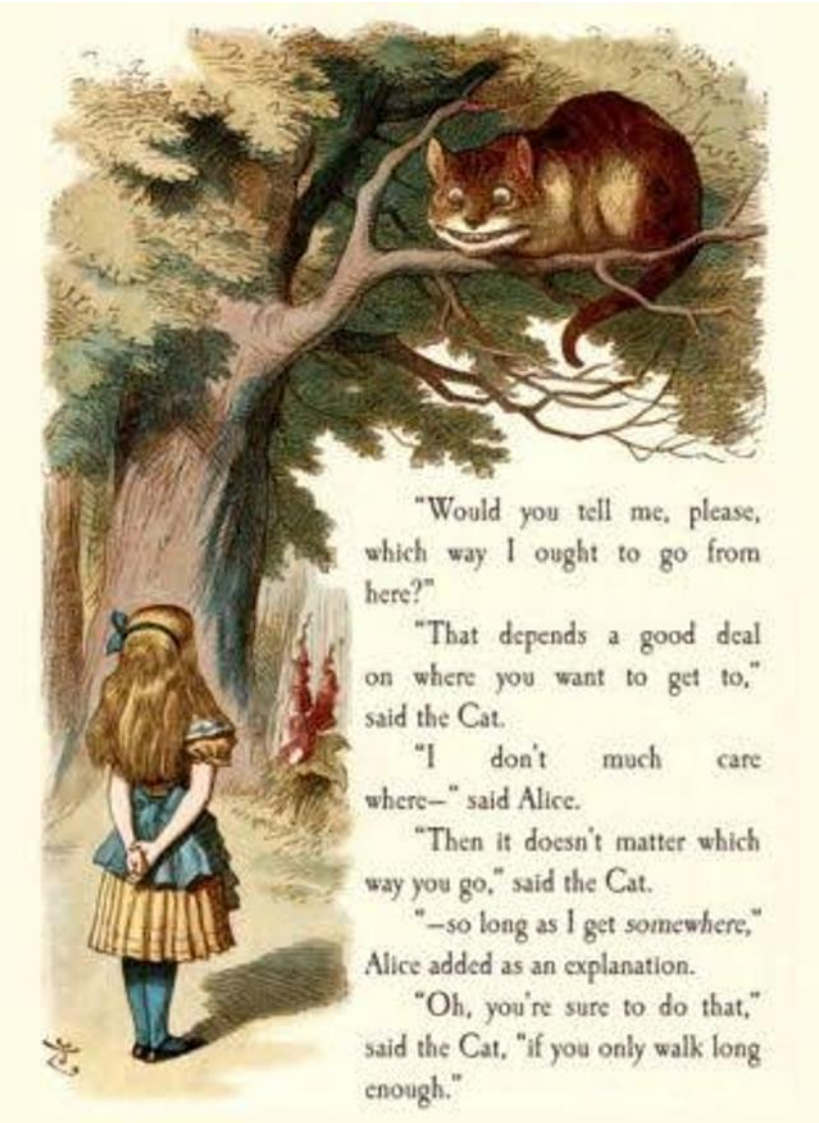
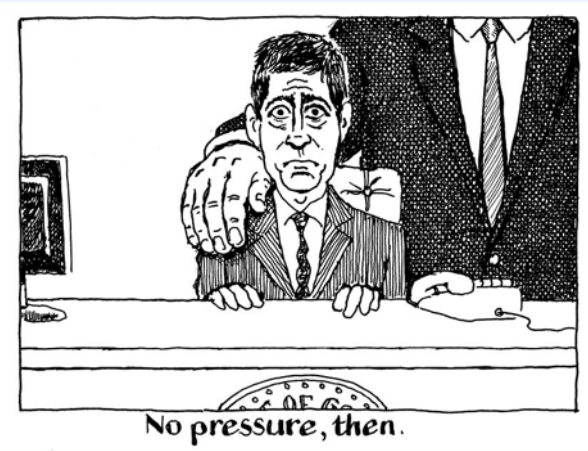
The new Fed Chair Kevin Warsh has promised to completely revamp Fed communication…



intention

perception



Deemed a political appointee to please the regime and drive forward a difficult agenda, the recent actions of Kevin Warsh, and his multilayered personality have sparked questions that lie at the very heart of Central Banks existence and relevance in an age of manic markets, charged yields, edgy investors and agentic AI, all interwoven

Image source: johnjsills.com depicting Alice in Wonderland by Lewis Carol / Global Capital

…in fact, in a 2008 speech and even in 2017, Kevin Warsh had questioned the Fed overconfidence in models and underlined that Fed should not overpromise….Congruence of thoughts then and now?....

America Needs a Steady, Strategic Fed

When central bankers react to short-term data, they confuse the immediate with the important.

By Kevin Warsh
Jan. 30, 2017 7:11 pm ET

iPhone 5 'greater boost' than Fed's QE

By Richard Blackden

* * *

How to Ease the Fed off Quantitative Easing

Kevin Warsh wants to reduce the balance sheet. Congress could help by creating a resolution fund.

March 26, 2010

An Ode to Independence

Governor Kevin Warsh

This may be the most pronounced time of testing for central banks in a generation.[1] Let me recount just a few of our challenges: significant market turmoil, unsatisfactory economic growth, historic housing price declines, dramatic commodity price run-ups, risk of a secular reversal of global inflation trends, sharp changes in exchange rates, uneven and unprecedented contours of economic growth – and policy responses – across major trading partners, and significant domestic debate regarding optimal economic and regulatory policies. Mind you, my intention is not to declare, oh, woe is us.

Thanks in no small measure to the scores of professionals long found in the four walls of the Federal Reserve System – and ample access to information – the Fed possesses both the commitment and resources to tackle these policy challenges. And, by virtue of the Fed's institutional credibility, bequeathed to today's Federal Open Market Committee by its predecessors, the policy response tends to be as highly anticipated as it is consequential. But in affirming our formidable assets, it is similarly not my intention to suggest that we have devised error-free policies to painlessly and smoothly achieve agreed-upon objectives.

Kevin M Warsh: The federal funds rate in extraordinary times speech (21 May 2008)

Stanford Students Reject Change in Judicial Code

By Bill Workman
Chronicle Peninsula Bureau

Encouraged by support from conservative scholars and former 1960s campus protesters, Stanford University student leaders have defeated a move to make it easier for administrators to bring charges against students accused of date rape, cheating and other misconduct.

Expressing concern that student rights might be diminished, Stanford's Senate of Associated Students this week rejected a proposed change in the school's judicial code that would have dropped a strict burden-of-proof standard that has been applied in misconduct cases by the university since the anti-Vietnam War years.

"This sends a message ... that we understand what our rights are and that we are hesitant to give too much power to the administ... tion," Kevin Warsh, student se... ...r, also joined in editorializing ...inst the lesser burden of proof

Student opponents of the controversial measure were supported in their efforts by an ideologically diverse coalition of 19 Hoover Institution scholars, conservative Stanford professors and former anti-war protesters, including several who had been arrested in campus demonstrations, and the civil rights lawyers who defended them more than two decades ago.

Abuse Feared

In a statement issued last week, they said they feared that the less strict standard of proof could be abused by Stanford administrators to expel student demonstrators and protesters.

Both the Stanford Daily and the Stanford Review, the university's conservative student newspa...

Article from 22 Nov 1991
San Francisco Chronicle (San Francisco, CA)

Should the Fed Create 'FedCoin' to Rival Bitcoin? A Former Top Official Says 'Maybe'

Warsh, lone hawk on Fed board, to step down

By Reuters

February 11, 2011 12:59 AM GMT+5:30 · Updated February 11, 2011

Aa

Kevin Warsh's push to axe Fed guidance may lift US borrowing costs, investors warn

Traders see more volatility ahead as new central bank chair declines to give dot plot on future path of interest rates

BUSINESS › POLICY

Kevin Warsh, The Fed, And The Soft Bigotry Of Low Expectations

Flippin' the Many Lives of Kevin Warsh through 1995…..

Images source: from various newspapers and media sources

Inside the mind of Kevin Warsh: markets, law, crisis and dissent

Post leaving Fed in 2011, Warsh joined **Duquesne**, the family investment firm of investor and hedge fund manager Stanley Druckenmiller (a long time money manager for quantum Fund of George Soros), apart from teaching at Stanford GSB and a distinguished fellow at Hoover Institution…. A significant portion of Warsh's wealth (~$100 mn) is believed to be tied in **Juggernaut fund** from Dusquesne

Nomination approved with thinnest majority

Stanford public policy	Harvard Law	Morgan Stanley	Fed Governor 2006–11	2011 resignation	2026 Chair
Institutional design; civic/legal lens	Rules, mandate and constitutional boundaries	Market microstructure; balance-sheet incentives	Crisis response but wary of prolonged asset purchases	Dissent against policy drift and QE dependency	Opportunity to convert critique into operating system

Warsh was brought in by Bush administration…. resigned during Obama's period

2017: considered for Fed's Top job

2026: considered for Treasury Secretary

Decoded philosophy

Warsh is not simply "hawkish." His deeper instinct is institutional: tools should be few, mandates narrow, balance sheets smaller, communication less promiscuous, and markets responsible for pricing risk.

The psychological risk

A leader formed by crisis-era dissent can overcorrect when finally empowered. The danger is mistaking less communication for more credibility.

The important question to ponder is: CAN HE DELIVER…..IN FULL?

IF Warsh breaks free from politics, history may credit him with restoring monetary discipline. If he appears to serve an electoral agenda, even good policy will lose legitimacy.

Image source: Wiki media

Warsh's five committees: reform engines or time-buying device?

Task force	Strategic question	Likely timeline	Binding force	Rate-path read
Communications	Dot plot, minutes, statement length, forward guidance	3–6 months for proposals	Low unless FOMC adopts	Can delay guidance while signaling hawkishness
Balance sheet	Ample reserves, T-bills, MBS runoff, duration footprint	6–18 months	Medium via implementation committee	Big reforms slow; near-term mostly narrative
Inflation framework	2% target, shock treatment, expectations	6–12 months	High if statement of strategy changes	Supports credibility-hike logic
Productivity & jobs	AI, labor churn, growth potential	6–12 months	Analytical, not binding	Can justify patience if productivity offsets inflation
Data sources	Real-time/alternative data, revisions, AI measurement	3–9 months	Medium for staff process	Can reduce reliance on lagged official releases

Judgement

These committees are not legally binding on the FOMC. They matter if Warsh makes their scope transparent, fills them with internal skeptics, and publishes a clear work plan.

Stalling tactic risk

If the committees become a shield against explaining near-term policy, markets will infer that the Fed is hiding its reaction function.

Can Kevin Warsh succeed??

A less-talking Fed works will work when the world is less confused……1/5

Era	Communication style	Market context	Warsh lesson
Volcker	Sparse, forceful anti-inflation signals	Inflation credibility crisis; high nominal rates	Silence can work if objective dominates all trade-offs
Greenspan	Delphic ambiguity; “Fedspeak”	Great Moderation; lower volatility	Ambiguity works only when macro regime is stable
Bernanke–Powell	Forward guidance, SEP, press conferences	Zero bound, QE, pandemic, balance-sheet era	Transparency became policy tool
Warsh	Minimalism + task-force reform	AI shock, tariffs, war, huge deficits, global dollar assets	Less guidance must be replaced by better decision rules

Odyssean guidance

A conditional commitment designed to shape expectations by promising future behavior.

Delphic guidance

A forecast-like description of the economy and policy outlook, not a promise.

Warsh’s risk

By rejecting both, he can create a third style: “Socratic opacity” — asking markets to infer the rule without seeing it. That raises the term premium.

Best alternative

Fewer words, sharper thresholds: explain what data would change the Fed’s mind, not where rates will be in six months.

…..Also, the challenge is, communication increasingly, has become monetary policy unto itself…2/5

Modern central banks move the economy partly by moving expectations. The question is whether Warsh is pruning noise — or removing the map in a storm.

> **Forward guidance is not one language. It can be a commitment, or merely a forecast.**
>
> Campbell et al. distinction: Odyssean vs Delphic

Central bank	Style cue	Risk
Fed post-2012	Dots + SEP + pressers	Over-precision
ECB	Consensus-forward phrasing	Translation lag
BOE	Inflation Report + fan charts	Forecast humility
BoJ	Commitment at ZLB	**Exit confusion**
Warsh Fed	Statement minimalism	**Market fills blanks**

ODYSSEAN VS DELPHIC

ODYSSEAN Commitment to future reaction	DELPHIC Forecast of likely path
Powerful when credibility is high; dangerous if the economy changes and the central bank looks trapped.	Useful as a map; markets can mistake forecasts for promises and punish revisions.
Warsh's pivot: less path guidance, more "reaction function" ambiguity.	

Delphic: predictive or Odyssean: commitment-based

it is crucial to distinguish between an **intended** commitment by the central bank and a **perceived** commitment by the markets as Christopher S. Sutherland argues

Sources: Campbell et al. (Brookings Papers, 2012); Chicago Fed; ECB/BoE/BoJ communication literature; authors analysis

…FOMC 2026: Warsh can lead, but he cannot vote alone…..3/5

Warsh

Hawkish

Williams

Centrist

Barr

Centrist

Bowman

Hawkish

Cook

Dovish

Hammack

Hawkish

Jefferson

Centrist

Kashkari

Centrist

Logan

Hawkish

Paulson

Centrist

Powell

Centrist

Waller

Hawkish

The vote arithmetic

A rate move needs majority support. The chair's power is agenda-setting, consensus-building and narrative control — not unilateral action(s).

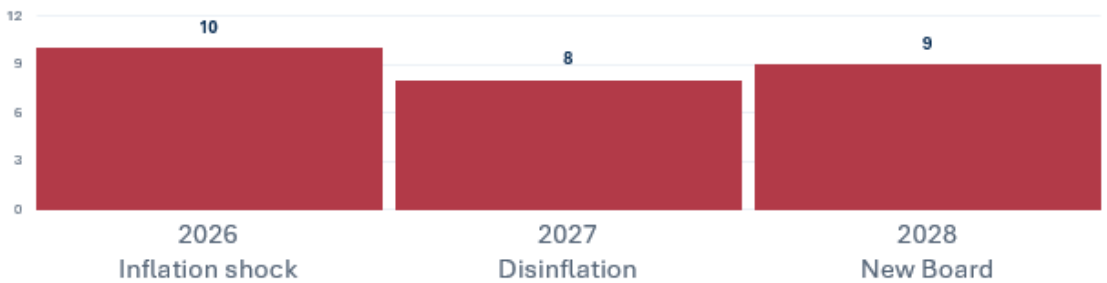
Our stance labels

Indicative, not permanent: based on recent speeches, voting record, institutional role and public market reaction. Data can shift labels quickly though.

Through the Looking Glass ……Only if Fed policy move matches the median voter's data threshold….4/5

Scenario	2026 support for hike	2027 support for hike	2028 support for hike	Interpretation
Core PCE >3.3%, payrolls firm	8–10 of 12	6–8 of 12	7–9 of 12	Warsh can raise; dissent manageable
PCE falls <3%, unemployment 4.5%+	3–5	2–4	3–5	Hikes fail; hold/cut coalition emerges
AI capex boom, consumer stress rising	6–7	5–6	6–7	Median voter wants more data, less rhetoric
Dollar/UST stress event	2–4	2–4	2–5	Liquidity tools preferred to rate hikes

Estimated hike-support ceiling by year



Powell & Cook effect

Their presence makes "political obedience" harder: if they dissent, markets will interpret Warsh's move as institutionally divided. If they concur, Warsh's credibility rises sharply.

Granular conclusion

Warsh is most likely to succeed with a one-hike credibility move. He is least likely to succeed with an extended hiking campaign that lacks visible inflation drift.

But, even the symbolic effect of a single hike can be more than manageable!

The Others…If rate cuts are blocked by sticky PCE, the Fed should use other policy tools…. 5/5

Tool	Mechanism	Borrowing-cost channel	Risk / caveat
Balance-sheet composition	Maintain ample reserves; favor T-bills; reduce duration footprint slowly	Stabilizes money markets without broad easing	Looks like Treasury financing if not explained
Standing Repo Facility / discount window	Backstop funding stress and collateral liquidity	Prevents funding premia from spilling into loans	Stigma and moral hazard
Regulatory calibration	Basel III endgame, capital buffers, liquidity rules	Can lower bank intermediation spreads	May be seen as bank-friendly deregulation
Forward threshold, not guidance	Publish reaction-function variables rather than rate promises	Reduces uncertainty premium without promising cuts	May undercut "less talking" philosophy
Supervisory messaging	Avoid procyclical credit tightening in healthy banks	Keeps credit supply from overreacting	Hard to calibrate institution-by-institution

Most powerful non-rate move

Lower uncertainty premium. A less-chatty Fed can still be explicit about data thresholds and liquidity plumbing.

Most impactful non-rate move

Using balance sheet or regulation to engineer lower rates while claiming monetary restraint. Markets will see through it.

…..So, What Next?

The public Warsh will turn “independent”; the market Warsh will turn out to be “hawkish”

Reuters, Jun 2026

“Skinny Fed” approach brings a sparse statement and fewer policy clues

Market reads minimalism as hawkish uncertainty.

Reuters, Jun 2026

Five task forces launched on communications, balance sheet, inflation, jobs and data

Reform architecture or tactical delay? Both interpretations coexist.

Reuters, May 2026

Trump and Warsh’s fates are tied ahead of midterms

Political cost of high inflation vs high rates.

Warsh QFR

Rates should be primary; large balance sheets risk fiscal entanglement

A lawyerly limit on central-bank reach.

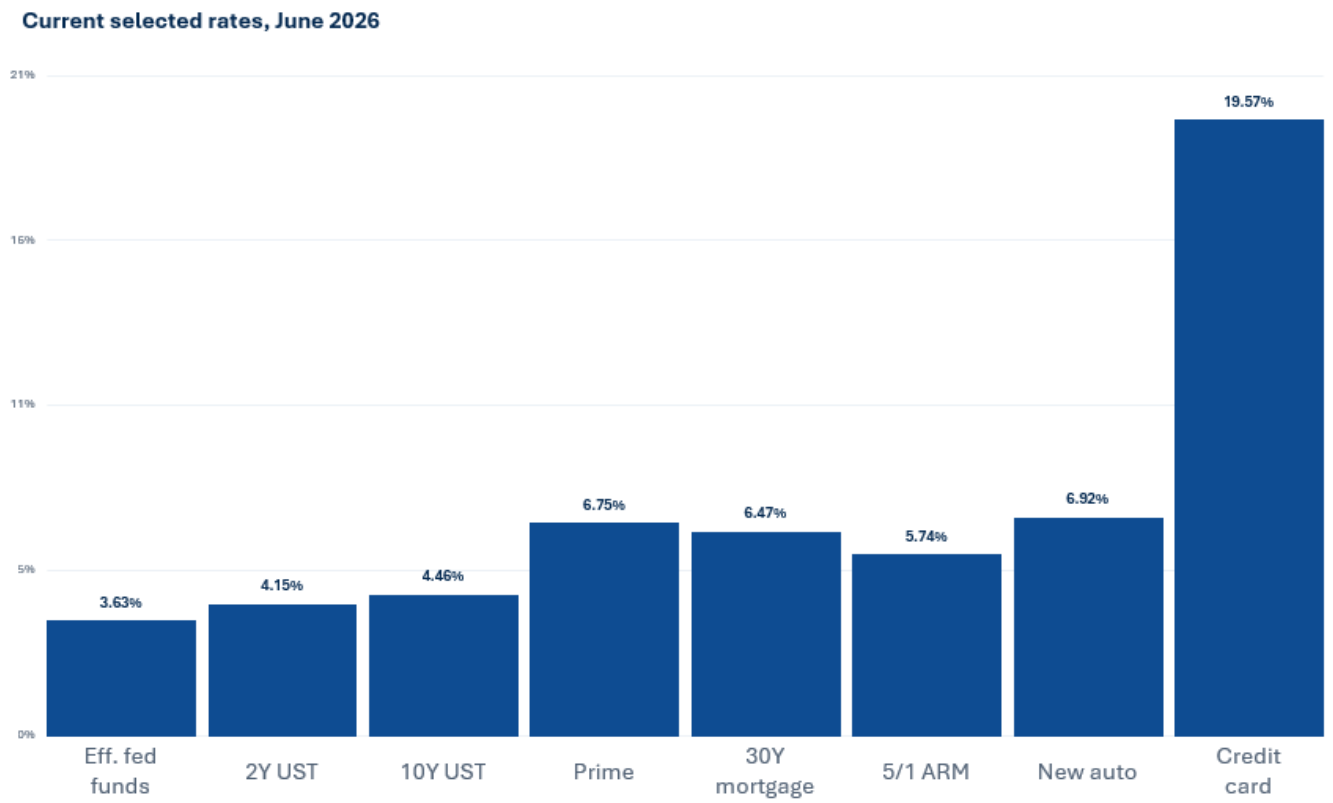
Reuters, Jun 2026

Dollar rises and 2Y yields jump as markets price possible hikes

Less guidance became a tradable macro signal.

Psychological Map: Warsh is signaling that he would rather be judged by outcomes than words. The problem is that central-bank outcomes are partly created by these very words that he wishes to curtail…..

Yields have Detached: Are markets already doing some of the tightening?.....



Why it matters

The consumer does not borrow at the Fed funds rate. Mortgage, auto, ARM and card rates embed term premium, bank margins, credit risk and funding competition

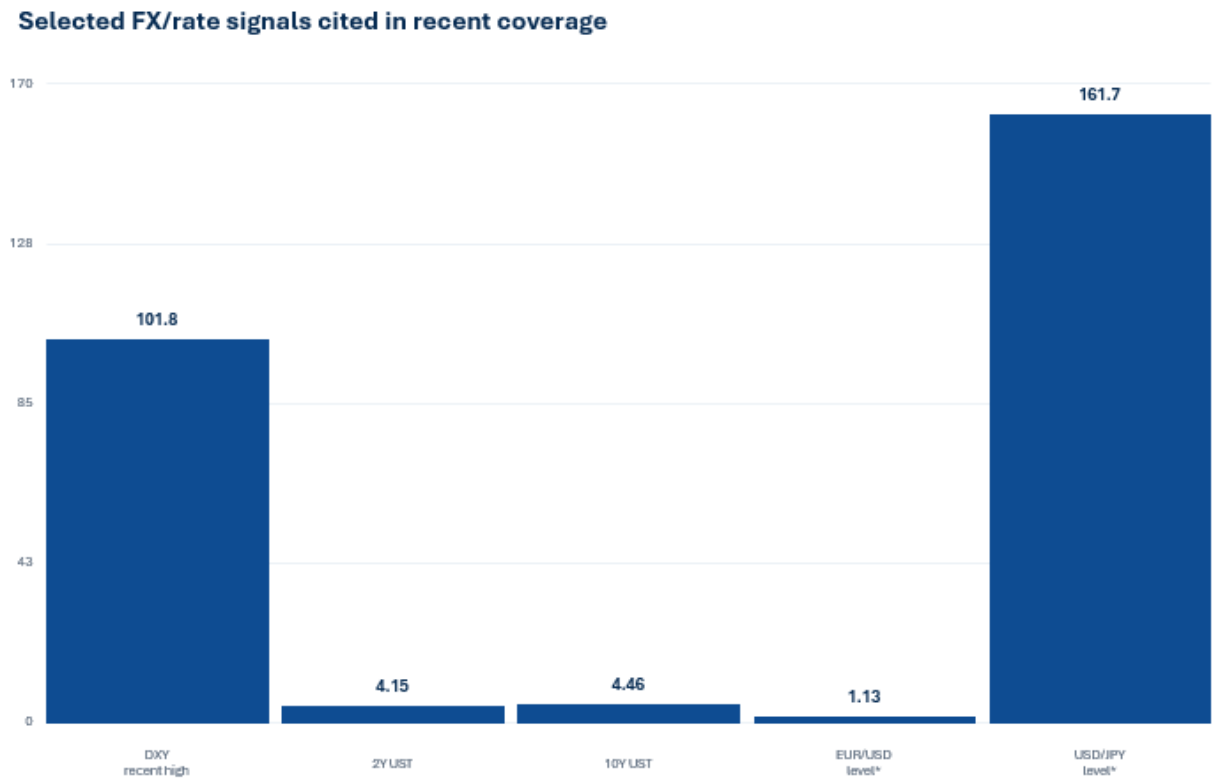
Rate-hike paradox

If Warsh hikes after yields have already moved, the marginal squeeze may land disproportionately on variable-rate households and riskier borrowers

Market implication

Long-end rates may remain high even if policy stays unchanged, especially if Treasury supply, deficits and AI bond issuance compete for duration capital

Dollar strength is the market's cleanest vote: it prices U.S. growth plus Fed hawkishness



What the rally means

The dollar is not pricing only Fed hikes. It also embeds U.S. exceptionalism, safe-haven demand, higher Treasury yields, AI productivity optimism and weak alternatives.

Export/import effect

A stronger dollar cheapens imports and helps goods inflation, but hurts exports, translated foreign earnings and EM dollar liabilities.

Policy tension

If dollar strength helps disinflation, it may reduce the need for hikes — but if it reflects rising term premium, it also tightens global conditions.

levels are indicative and as of last week...DXY has strengthened, yields have eased a little, and JPY has weakened further to a 40 years low

Global spillover: a credible Fed is a public good; a confused Fed is a global tax

Fed outcome	U.S. effect	Global effect	Central-bank implication
Credible hold-to-hike	Inflation expectations contained; growth moderates	Dollar strong but orderly; UST term premium stabilizes	Other CBs can focus on domestic cycles
Over-hike / communication accident	Housing/consumer stress; equity de-rating	Duration losses, EM FX pressure, capital-flow reversal	Defensive interventions, delayed easing
Political capture perception	Dollar risk premium rises; Fed credibility damaged	Foreign reserve managers demand more risk premium	CB independence debate becomes global
AI-led productivity success	Higher real growth; inflation eventually lower	U.S. assets outperform; capital concentration deepens	Other economies chase AI capex and energy supply

New world order question

The U.S. can still lead if the Fed remains the institutional anchor while trade policy is weaponised. If monetary credibility joins trade uncertainty, U.S. exceptionalism becomes unstable

For foreign holders of U.S. assets

The risk is not just rate level; it is whether the Fed's rule is legible since legibility will determine duration premium, FX hedging cost and equity discount rates

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