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Here's What's Expected From Janet Yellen's First-Ever Remarks As Chair Of The Federal Reserve Today

By Matthew Boesler
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Today, Janet Yellen will offer her first public remarks as chair of the Federal Reserve in the central bank's semi-annual testimony before Congress on monetary policy.

No one expects much new information to come from the event, which means the market reaction could be limited, barring any unexpected curveballs.

"While Yellen has served the Fed at different times and in different roles over the past 36 years, this testimony offers her a unique opportunity to reintroduce herself to the world in her newly-elevated capacity," says Neal Soss, chief economist at Credit Suisse.

"That said, unlike Mario Draghi at the ECB or Haruhiko Kuroda at the BoJ or Mark Carney at the BoE, we suspect the first impression Yellen will strive to convey is continuity rather than decisive innovation."

Morgan Stanley chief U.S. economist and former secretary and economist of the FOMC Vincent Reinhart previews some of the questions Yellen may be asked during her testimony in a note to clients:

1) How fast can the US economy grow in the long run?

As Congress tries to assess the Fed's performance, they'll be interested to hear where the Fed thinks long term growth will settle. Morgan Stanley estimates potential near 2.5%.

2) What is the limit to how low the unemployment rate can go?

With a trend decline in labor force participation and unemployment falling faster than expected, Congress will be interested in just how far down the unemployment rate can sink.

3) Who benefits from your policy largesse — the 99 percent or the 1 percent?

As representatives of "Main Street," Congress cares about how Fed policy affects the average American. Do low interest rates benefit only the wealthy who own financial assets, while punishing everyday savers?

4) If you had your druthers, who would be your vice chair?

We don't know if Stanley Fisher was Yellen's or Obama's choice. They may be interested in who else she'd like to be Vice Chair or on the Fed's Board of Governors.

5) How much will the expiration of the unemployment benefits harm the economy?

Unemployment benefits have been a hot button issue in Congress. Democrats may try to leverage Yellen to prove the urgency of the matter.

6) What's the exit plan?

Tapering is a step in the direction of ending unconventional monetary policy, but the Fed has a long way to go before their balance sheet is normalized.

7) How do you believe historians will judge the expansion of the Fed under your predecessor?

Under Ben Bernanke, the Fed underwent the most rapid expansion of its purview in the institution's history. Its role in regulating the financial system in addition to accomplishing monetary goals has sparked sharp controversy among Congress.

8) Do you feel the Fed is structured to deal with broadened responsibilities?

Following the financial crisis, the role of the Fed as a facilitator and regulator has greatly expanded. Perhaps it's time to expand its leadership in terms of expertise and restructure to better accommodate its new role.

9) Should we be concerned about spillover of the recent weakness in developing (EM) economies?

The Fed made no mention of EM weakness in their January statement. Weaker than expected payrolls growth in December and January may cause additional slowdown concerns. Having several weeks to digest EM strains, Yellen may have more to say than the standard syllogism.

10) Do you believe there is a skills gap in the labor force? What additional measures can the Fed take to act further on its mandate to ensure full employment?

The unemployment rate keeps falling, but job growth remains lackluster. Both sides of the aisle probably feel the Fed should do more to reduce some of the slack in the labor force.

If these are any indication, market participants may be left without much to chew on.

However, there is one notable aspect of Tuesday's proceedings that has caught some attention today.

According to the House Financial Services Committee, following Yellen's testimony, a second panel of witnesses — comprised of former Fed vice chairman Don Kohn, Stanford economist John B. Taylor, Cato Institute's Mark Calabria, and American Enterprise Institute's Abby McCloskey — will critique Yellen's remarks.

"This is not normal," says Neil Dutta, head of U.S. economics at Renaissance Macro.

"Judging from the make-up of the panel, we doubt these reactions (with the exception of Kohn) will be favorable to Yellen's message. So now, with a new Chair(wo)man debuting before legislators, Congress decides to go after the Fed's credibility."

The move is not unprecedented. As recently as then-chairman Ben Bernanke's July 2010 Humphrey Hawkins testimony, a second panel followed the Fed chief.

Ian Lyngen, a senior government bond strategist at CRT Capital, says the second panel "could offer event-risk for what might otherwise be an uneventful rehash of the FOMC's stance."

"We don't have a strong stance on the potential here for price action inspired by the Fed critics, but with the marquee names of Taylor and Kohn, we are open to the risk that people listen and they disagree with Yellen's more dovish policy spin," says Lyngen.

"If so, Yellen could pre-empt the response with a more balanced text."

Either way, the chairwoman's prepared remarks will be released Tuesday morning at 8:30 AM ET. The testimony begins at 10:00 AM.