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SOME INITIAL THOUGHTS ON THE FED'S QE TAPER ANNOUNCEMENT

- Let's keep this in perspective. Amid talk of the "end" of QE, keep in mind that tapering is NOT tightening. QE will continue, at almost the same pace as before, and the Fed remains committed to keeping interest rates low long after QE ends. (With the federal budget deficit falling, there are fewer bonds for the Fed to buy anyway). In the meantime, the Fed's balance sheet continues to grow. And someday, that balance sheet will have to be unwound. We're not even talking about that yet.

- That said, the Fed's action indicates it is reasonably confident the economy, and the job market in particular, is gaining strength.

- Some degree of Fed tapering was priced into the market. In fact, the uptick in equities that immediately followed the announcement suggests the market sees tapering as Fed endorsement of a more sustainable positive economic outlook.

- The most interesting effects to watch may be overseas. Earlier this year, taper talk hit emerging markets hard, particularly countries like India and Turkey that have relied on ready capital flows to finance their current account deficits. They looked like they might be facing a crisis until taper talk receded with the October meeting and Yellen's appointment. Many in these markets hoped QE would go on forever. The breathing space they've enjoyed may have gone away.

- As a surplus country, China has less exposure to macro risk from Fed tapering. But it could undercut liquidity at a delicate moment. More importantly, it could undercut the risky carry trade that has developed over the past year or so, where Chinese speculators borrow USD cheaply from abroad and bring them into China (often via fake export invoicing) to speculate on property or Ponzi schemes. If the money dries up, it could create a pretty dicey situation.

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