

## Economic QuickView



### FOMC Meeting: Hopes dashed of a rate cut in March but easing bias remains

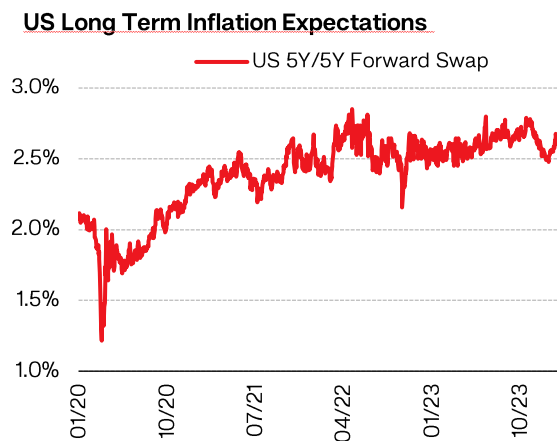
- The FOMC voted unanimously to keep the federal funds rate unchanged at 5.25-5.50%, as widely expected.
- Fed Chairman Powell stressed that they are in no rush to cut rates until they have gained greater confidence that inflation is moving sustainably toward 2%.
- The issues of the Fed's balance sheet were discussed during the meeting, with in-depth discussions to continue in the upcoming March meeting.

**Fed Chairman Powell explicitly ruled out the widely expected rate cut in March.** On 31 January 2024, the FOMC concluded its monetary policy meeting and unanimously decided to keep the federal funds rate unchanged at 5.25-5.50%. The decision was in line with market consensus. What is of concern is the Fed's forward guidance on its future policy moves, as market participants have increasingly expected the Fed to start normalising its monetary tightening in 2024 since its dovish pivot in December 2023. In the post-meeting statement, there were several material changes. On the monetary policy outlook, the FOMC removed the content regarding the conditions for "additional policy firming" in the December statement and replaced it with a more flexible description: "In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.". Additionally, the statement adds that "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%". This implies that future rate cuts are not likely to come soon. During the press conference, Fed Chairman Powell reiterated that the FOMC is yet to reach a level of confidence to be able to identify March as the time to cut rates. This message effectively states that the next rate cut is not going to happen in March. Overall, the Fed's forward guidance remains on an easing bias.

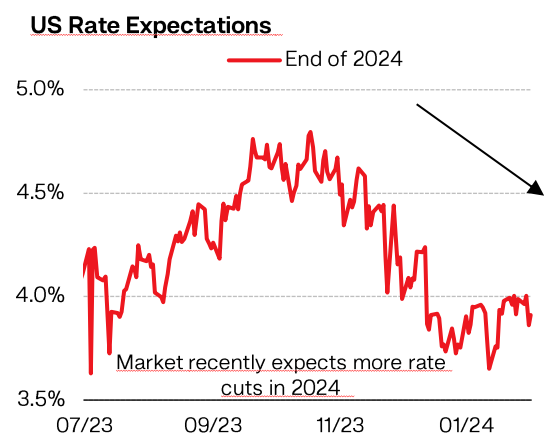
## Economic Research Department

1 February 2024

**Solid economic growth and an uncertain inflation outlook keep the Fed's action in check.** The post-meeting statement also took an upbeat assessment of the US economy, referring to its growth as solid. Fed Chairman Powell mentioned that strong growth and a solid labour market led the FOMC to take a cautious approach to adjusting its monetary policy. Regarding the US disinflation progress, Fed Chairman Powell acknowledges that there were "six months of good inflation data" but also views the inflation path forward as uncertain.

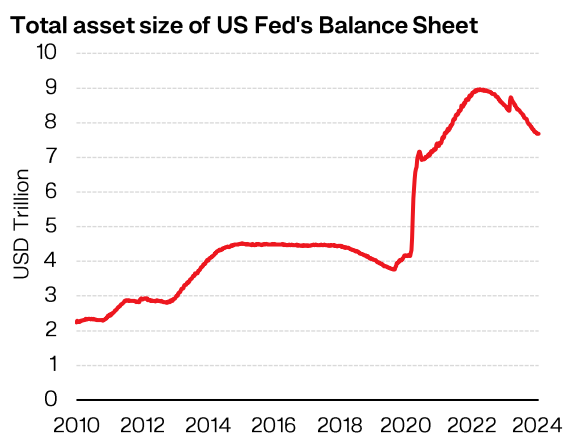


Source: Bloomberg

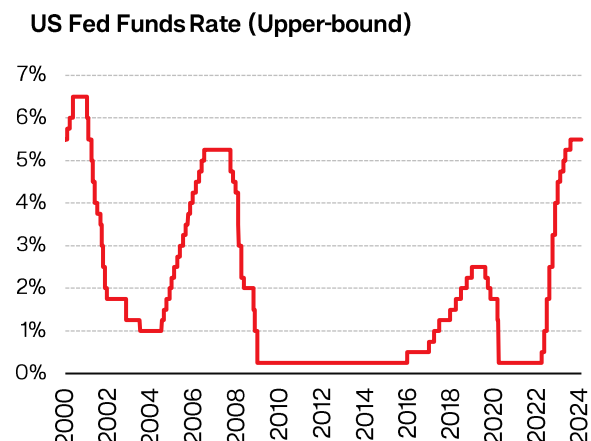


Source: Bloomberg, data as of 01/02/2024

**Discussion of the Fed's balance sheet issues will deepen in the March meeting.** While the FOMC continues to maintain the current pace of balance-sheet normalisation (reducing its holdings of treasuries and agency debt and mortgage-backed securities under a monthly cap of USD 60 billion and USD 35 billion, respectively), Fed Chairman Powell admitted that the FOMC had some discussions on the balance sheet issues and revealed that there will be in-depth discussions at the March meeting. He also confirmed that rate cuts and the balance sheet reduction would proceed concurrently, given the differences in their normalisation processes. It suggests that there is a possibility that the Fed will adjust its balance sheet tapering in the coming months.



Source: Bloomberg



Source: Bloomberg

**The Fed is expected to start its easing cycle around mid-2024.** At present, the US labour market's resilience continues to pose an upside risk to its inflation outlook, which will be on a softening but possibly bumpy trend. On balance, we maintain our view that the Fed will start cutting rates in mid-2024. Hong Kong dollar (HKD) interest rates are set to follow the gradual downward path of their US counterparts, though the room for prime rate cuts by banks in Hong Kong will depend on the HKD interest rate levels, liquidity conditions, loan demand and their business strategy at that time.

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