

Economic QuickView



FOMC Meeting: Three rate cuts marked for 2024 with a slower QT fairly soon

- The FOMC voted unanimously to keep the federal funds rate unchanged at 5.25-5.50%.
- FOMC members revised up the median GDP growth forecasts for 2024-26, while they continue to expect a total of 75 bps rate cuts to 4.50-4.75% by the end of 2024.
- The pace of the Fed's balance sheet runoff will be slowed "fairly soon".

The FOMC took a dovish hold by maintaining the median projections of three rate cuts in 2024.

At the March meeting, the Fed held its monetary policy unchanged, in line with market expectations. The post-meeting statement is broadly unchanged, except for the job market, which is viewed as strong and the description of "moderated" is removed. In addition, there are a few notable changes in the "Summary of Economic Projections (SEP)". FOMC members maintain the same median projection for 2024 as in the December meeting, pencilling down a total of 75 basis points (bps) cuts, while the median rate projections for 2025 and 2026 are revised up from 3.6% to 3.9% and 2.9% to 3.1%, respectively. Meanwhile, the longer run median rate projection is revised up 0.0625% to 2.5625% (rounding up to 2.6%). Together, these signal that a gradual reduction of US interest rate is set to begin around mid-2024.

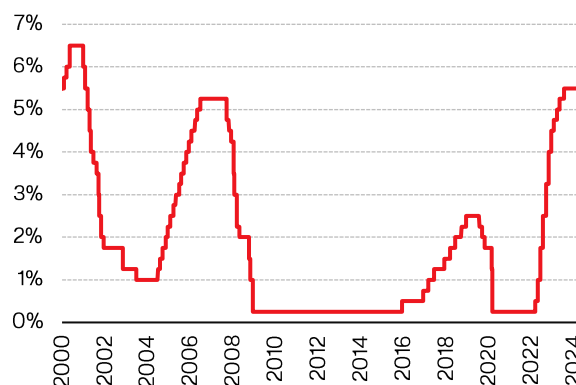
FOMC members upgrade both GDP and core PCE inflation forecasts. In addition to the rate projections, FOMC members also adjust the economic forecasts ahead, with the median projections for real GDP growth for 2024, 2025 and 2026 being revised up by 0.7, 0.2 and 0.1 percentage points to 2.1%, 2.0% and 2.0%, respectively. It suggests a more positive outlook on the US economy. Moreover, the median projection for core personal consumption expenditure (PCE) inflation for 2024 is also slightly revised up from 2.4% to 2.6%, while those for 2025 and 2026 remain unchanged at 2.2% and 2.0%, respectively. This reflects FOMC members' expectations for a gradual slowdown of inflation towards their 2% target.

Fed Chairman Powell noted the inflation readings in early 2024 as bumpy and continue to see good progress on bringing down inflation. While firmer-than-expected inflation readings in January and February led to rapid swings on market pricing for the US interest rate outlook, Fed Chairman Powell revealed that FOMC members continue to see a further easing of inflation. Specifically, several factors are supportive to achieve the Fed's inflation objective, such as a restrictive monetary stance, lower market rent increases, and growth in labour force. This forward guidance confirms that the Fed is prepared to normalise its monetary policy. After the FOMC meeting, market pricing on the rate projections by end-2024 swiftly aligned with the SEP forecasts. Overall, we maintain our view that the Fed is likely to start its rate cut cycle around mid-2024. Considering a smaller increment in Hong Kong dollar (HKD) prime rate during the previous rate hike cycle, the reduction in HKD prime rate is expected to lag and be smaller than the US interest rates in future. Yet, such changes will depend on various factors like liquidity condition, loan demand and business strategy.

FOMC Projections (March 2024)	2024	2025	2026	Longer run
Real GDP growth (%) [December 2023]	2.1 [1.4]	2.0 [1.8]	2.0 [1.9]	1.8 [1.8]
Unemployment rate (%) [December 2023]	4.0 [4.1]	4.1 [4.1]	4.0 [4.1]	4.1 [4.1]
Core PCE inflation (%) [December 2023]	2.6 [2.4]	2.2 [2.2]	2.0 [2.0]	-
Fed Funds rate (%) [December 2023]	4.6 [4.6]	3.9 [3.6]	3.1 [2.9]	2.6 [2.5]

Source: The Fed

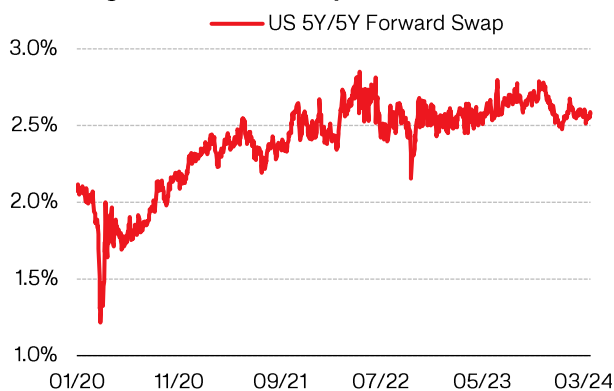
US Fed Funds Rate (Upper-bound)



Source: Bloomberg

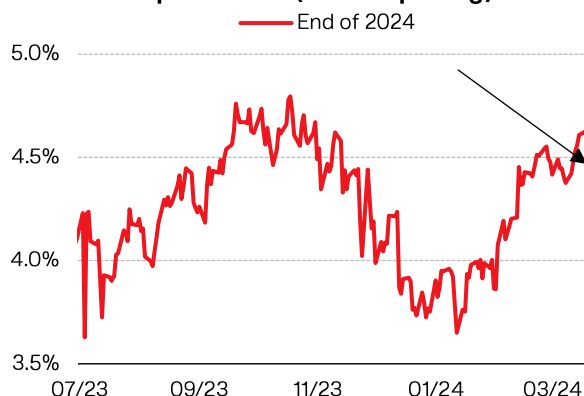
The Fed hinted that the pace of balance sheet runoff will be tapered soon. Fed Chairman Powell indicated in his opening remark that the FOMC members view it as appropriate to slow the pace of runoff "fairly soon", in order to approach the ultimate balance sheet level more gradually. He also noted that slowing the pace of runoff will reduce the risk of stress in money markets. At present, the Fed is reducing its holdings of treasuries securities and mortgage-backed securities under a monthly cap of USD 60 billion and USD 35 billion, respectively. It is likely that the tapering decision will be announced as soon as the May meeting.

US Long Term Inflation Expectations



Source: Bloomberg

US Rate Expectations (futures pricing)



Source: Bloomberg

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