BEA 東亞銀行

Economic Research Department 13 June 2024

Economic QuickView

FOMC Meeting: The Fed's median projection shows one rate cut for 2024

- The FOMC voted unanimously to keep the federal funds rate unchanged at 5.25-5.50%.
- The post-meeting statement noted "modest" progress in cooling inflation, but more data on disinflation will be needed for the Fed to be confident in loosening policy.
- We expect around 1 rate cut in 2024, which is likely to take effect in late Q3 to Q4.

The Fed scales back rate cut projections for 2024. In its June meeting, the FOMC voted unanimously to maintain the federal funds rate unchanged at 5.25-5.50% and keep the existing pace of reducing its holdings of treasuries and mortgage-backed securities. These were in line with expectations. Meanwhile, the Fed released its quarterly "Summary of Economic Projections" (SEP), with a hawkish tilt among the FOMC members. The dot plot shows the median projections of 1 rate cut in 2024, 4 in 2025, and 4 in 2026, compared to 3 cuts in 2024, 3 in 2025 and 3 in 2026 in the March SEP. For 2024-2026, the total number of expected rate cuts remains the same at 9 for its median forecast, suggesting a prudent stance to delay the timing of its first rate cut. The median forecast for the long-run neutral rate is also lifted from 2.5625% to 2.75%. Indeed, a closer look at the SEP projections shows that opinions surrounding the rate outlook in 2024 varied, as there are 4 members seeing no cuts, 7 opting for one cut, and 8 preferring two cuts. Fed Chairman Powell said that the discussions about the distinction between one or two cuts in 2024 were a very close call, leaving the door open for more than one cut in 2024.

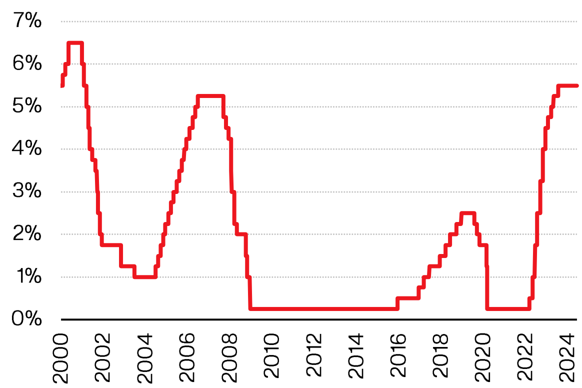
The June SEP slightly revised up its inflation forecast. The median projections for real GDP growth remain the same for 2024, 2025, and 2026, at 2.1%, 2.0%, and 2.0%, respectively. This reflects the expectations for a continuation of solid growth ahead. The median forecasts of headline and core PCE inflation for 2024 were both revised up by 0.2 percentage points (ppts) to 2.8% and 2.6%, respectively; and the same forecasts for 2025 were both raised by 0.1 ppts to 2.3%. The revisions suggest that the FOMC views slower-than-expected progress in disinflation ahead.

The May CPI readings provided modest progress in disinflation. The May CPI report released right before the FOMC meeting provided modest optimism as CPI inflation recorded cooler-than-expected readings. It probably led the post-meeting statement in June to take a shift in tone, with its language changing from a "lack of progress" towards their 2% inflation target in the May meeting to "modest progress". Headline CPI inflation in May was flat month-on-month (MoM), after rising by 0.3% in April, and rose 3.3% year-on-year (YoY) in May, slightly down from 3.4% in April. Meanwhile, core CPI inflation rose 0.2% MoM, down from 0.3%, and also slowed to 3.4% YoY from 3.6%. While the stalling headline CPI was mainly due to lower energy prices, lower core services prices were attributed to a dip in auto insurance and airfare prices. However, it is important to note that softened price momentum for auto insurance was after a strong run for many months, and airfare prices could be easily influenced by seasonal factors. Thus, it remains to be seen if a new disinflation trend is forming. Overall, Fed Chairman Powell stressed that the Fed needs to see further disinflation progress before gaining sufficient confidence to cut rates.

FOMC Projections (June 2024)	2024	2025	2026	Longer run
Real GDP growth (%) [March 2024]	**2.1** [2.1]	**2.0** [2.0]	**2.0** [2.0]	**1.8** [1.8]
Unemployment rate (%) [March 2024]	**4.0** [4.0]	**4.2** [4.1]	**4.1** [4.0]	**4.2** [4.1]
Core PCE inflation (%) [March 2024]	**2.8** [2.6]	**2.3** [2.2]	**2.0** [2.0]	-
Fed Funds rate (%) [March 2024]	**5.1** [4.6]	**4.1** [3.9]	**3.1** [3.1]	**2.8** [2.6]

Source: The Fed

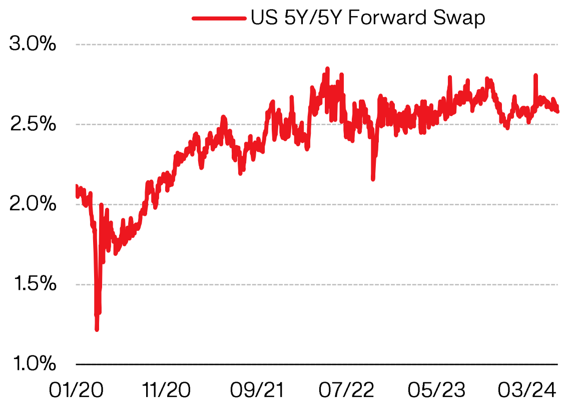
US Fed Funds Rate (Upper-bound)



Source: Bloomberg

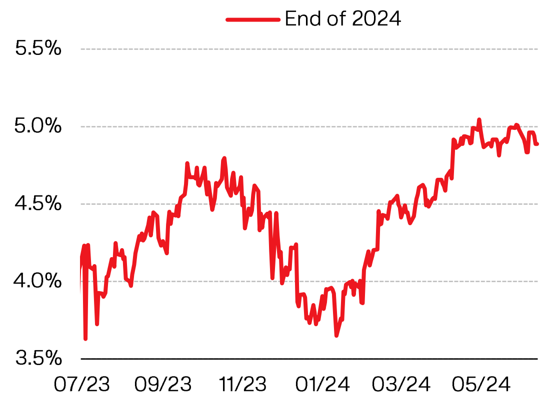
The Fed Chairman Powell expects the labour market to cool ahead. During the press conference, Fed Chairman Powell stated that the US labour market is expected to cool gradually, moving towards a better balance. He also gave an alternative scenario where unexpected weakening in the labour market could call for earlier rate cuts. On balance, we maintain our view that the Fed will have around 1 rate cut in 2024, which is likely to take effect in late Q3 to Q4, with a 25 basis point cut per quarter going forward after that. We expect HIBOR to follow the same trend, but do not expect the HKD Prime Rate to be cut in 2024.

US Long Term Inflation Expectations



Source: Bloomberg

US Rate Expectations



Source: Bloomberg

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