

Economic QuickView



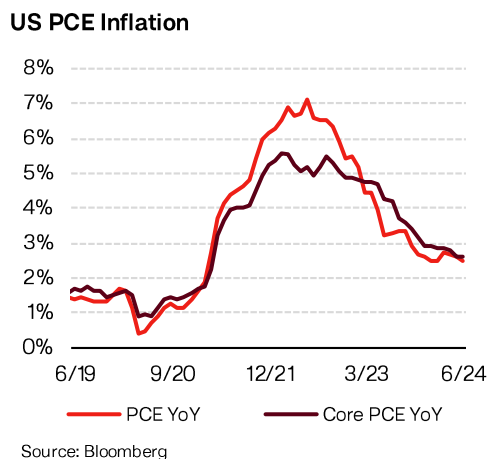
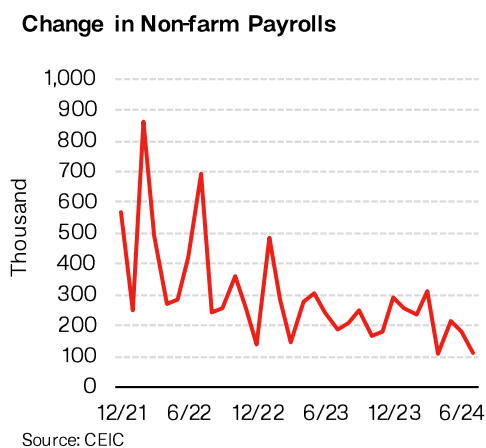
Jackson Hole Economic Symposium: Fed Chairman Jerome Powell signalled that the Fed's rate cut cycle is imminent

- Fed Chairman Powell stated that "the time has come for policy to adjust", sending a clear signal that a rate cut decision is set to be made in the upcoming September meeting.
- Fed Chairman Powell sounded increasingly cautious about further cooling in the labour market while reiterating a balanced focus on inflation and employment.
- The rate cut path is not yet publicly defined. We view that the Fed is likely to adopt a data-dependent approach, but its pace of rate cuts in the remainder of 2024 and 2025 is expected to be faster than the median forecast in its June summary of economic projections.

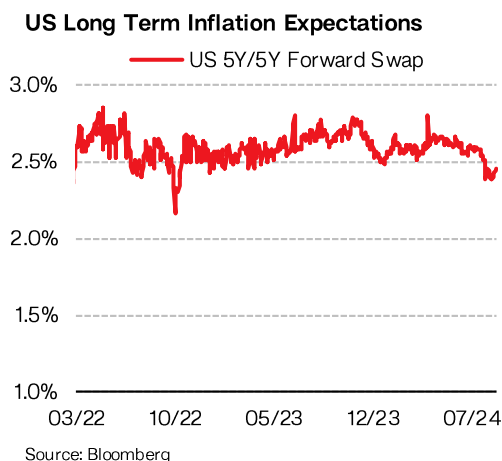
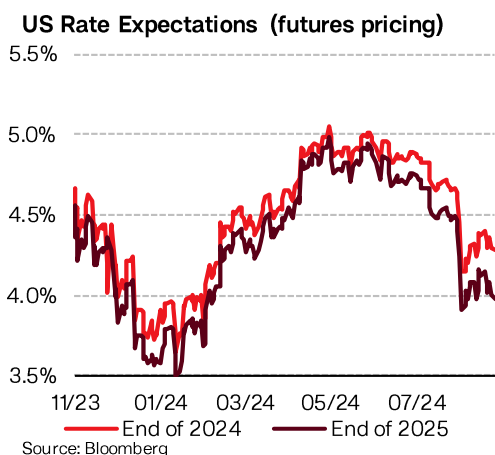
Fed Chairman Powell sent a clear signal to cut rates in September at the Jackson Hole Economic Symposium. The Federal Reserve Bank of Kansas City held its annual Jackson Hole Economic Symposium from 22-24 August, under the theme "Reassessing the Effectiveness and Transmission of Monetary Policy". During the symposium, Fed Chairman Powell's speech was the most closely watched event, as financial markets across the globe had been eagerly awaiting a signal by the Fed to begin its rate cuts, following nearly three years of aggressive monetary tightening since 2022. And Chairman Powell delivered what the market wanted, stating "the time has come for policy to adjust". This effectively gave the green light for a rate cut at the next FOMC meeting on 17-18 September.

Fed Chairman Powell sounded increasingly cautious about further cooling in the labour market. Regarding the current economic situation, Chairman Powell reiterated that the Fed is now attentive to the risks to both inflation and the labour market, as highlighted in the last FOMC meeting in July. In this context, Chairman Powell showed a dovish tone by confirming the labour market as no longer overheating, and further saying that "the cooling in labour market conditions is unmistakable" and

that "we do not seek or welcome further cooling in labour market conditions". Meanwhile, Chairman Powell stressed that he has gained more confidence that inflation is slowing towards the 2% policy target. Clearly, these messages indicated that the Fed is placing more emphasis on the downside risks to the labour market, while inflation is becoming a lesser concern.



The path of rate cuts is said to hinge on multiple factors. While Chairman Powell highlighted that the timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks, he did not provide further concrete descriptions like "gradual" or "methodical", which were raised by other Fed officials. It would reflect his intention to maintain flexibility for different sizes of rate cuts in September. Or it would be because he preferred to seek consensus among FOMC members before committing to a specific stance on the interest rate path. Looking ahead, the upcoming data releases, such as PCE inflation on 30 August and the labour market report on 6 September, will still have crucial implications for the size and pace of the rate cuts ahead. It is also worth noting that the FOMC will release its quarterly summary of economic projections (SEP) in its September meeting, which should give the public an insight into the members' latest views on the pace of the rate cuts ahead. Our base scenario sees that the Fed will have three 25 bps cuts for the rest of 2024, starting in September, and in 2025, the rate cuts are expected to occur at a faster pace than the median forecast of a total 100 bps outlined in its June summary of economic projections. Hong Kong dollar (HKD) interest rates are also expected to decline gradually, but given that the HKD prime rate did not closely follow the US pace of rate hikes, we expect its future pace of rate cuts will lag behind that of the US.



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