

## Economic QuickView



### FOMC Meeting: The Fed implemented a big rate cut of 50 basis points to ensure a soft landing

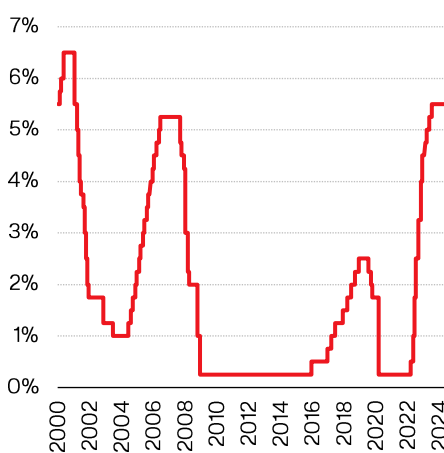
- The FOMC began its cut rate cycle by reducing the federal funds target rate by 50 basis points (bps) to 4.75-5.00% in September.
- The latest median projections indicated an orderly approach, where rates would be further reduced to 4.25-4.50% by 2024, and 3.25-3.50% by 2025.
- The Fed has stepped up its focus on supporting the labour market.

**The Fed cut rates by 50 bps in September, marking the start of its rate cut cycle.** During its September meeting, the Federal Open Market Committee (FOMC) voted to lower the federal funds rate by 50 bps to a target range of 4.75-5.00%, the first cut since March 2020. The decision of a 50 bps cut was not unanimous, with one FOMC member calling for a 25 bps cut instead. Meanwhile, the ongoing plan to reduce the Fed's securities holdings remained unchanged. The post-meeting statement toned down the assessment on job gains from "moderated" to "slowed" and added "supporting maximum employment" in describing the FOMC's commitment to meeting its policy objectives. On the contrary, the wording on inflation became more upbeat, highlighting that the FOMC "has gained greater confidence that inflation is moving sustainably toward 2%". Taken together, the Fed is getting less worried about inflation but more cautious about the development of labour market conditions in recalibrating the FOMC's policy stance, particularly since recent data has pointed to cooling trends in the labour market.

**September's Summary of Economic Projections (SEP) indicated more cuts ahead.** The FOMC released its updated SEP during the meeting. The median projections for the federal funds rate suggested that there would be in total another 50 bps in cuts to 4.25-4.50% by 2024, another 100 bps in cuts to 3.25-3.50% by 2025 and 50 bps to 2.75-3.00% by 2026. A downward shift was noted

for the rate projections from 2024 to 2026, while the median forecast for the long-run neutral rate now sits at 2.875%, higher than June's forecast of 2.750%. The dot plot also showcased a divergence in opinions among the 19 members, as 2 expected that rates should stay where they are after the current rate cut for the rest of 2024, 7 expected a 25 bps cut, 9 expected a 50 bps reduction, and 1 expected a 75 bps reduction. As for the projections for other economic variables, most were little changed, except for the unemployment rate. The median projections for the unemployment rate were raised to 4.4% for 2024, from 4.0% during June's SEP. This highlighted the reason why the FOMC has placed a greater emphasis on supporting the labour market in its recent forward guidance.

FOMC Projections (September 2024)	2024	2025	2026	2027	Longer run
Real GDP growth (%)	2.0	2.0	2.0	2.0	1.8
[June 2024]	[2.1]	[2.0]	[2.0]	[n/a]	[1.8]
Unemployment rate (%)	4.4	4.4	4.3	4.2	4.2
[June 2024]	[4.0]	[4.2]	[4.1]	[n/a]	[4.2]
Core PCE inflation (%)	2.6	2.2	2.0	2.0	-
[June 2024]	[2.8]	[2.3]	[2.0]	[n/a]	-
Fed Funds rate (%)	4.4	3.4	2.9	2.9	2.9
[June 2024]	[5.1]	[4.1]	[3.1]	[n/a]	[2.8]

**US Fed Funds Rate (Upper)**


Source: Bloomberg

Source: The Fed

**Fed Chairman Jerome Powell cited a slowdown in the labour market as the reason for a big rate cut in September.** When asked about considerations in deciding on a 50 bps cut, Fed Chairman Powell cited recent trends that labour market data "may be artificially high and will be revised down", and judged it to be the right thing for the economy that a big cut of 50 bps was necessary. However, Fed Chairman Powell also stressed that the decision to go big in September should not be viewed as "a new pace". He also stated that the FOMC is not on any preset course and will continue to make decisions meeting by meeting based on incoming data, the evolving outlook, and the balance of risks. Particularly, he stated that the FOMC is not in a rush to meet the projections outlined in the SEP. This suggests that the odds for a 50 bps cut in November will be less than that for two 25 bps cuts in November and December.

**Our base scenario sees that the Fed will continue cutting rates in 2024 and 2025.** We predict that the Fed will have two more 25 bps rate cuts in the rest of 2024. In 2025, we view that the Fed will cut rates by 25 bps at each meeting in 1H before shifting to a slower pace of quarterly cuts in 2H. However, if future job reports are very weak and indicate a sharp deterioration in the labour market, we cannot rule out a larger total rate cut this year. On HIBOR, we expect that they will follow a similar downtrend with the USD rates, as easing expectations continue to build up. After the Fed's 50 bps cut, major banks in Hong Kong announced a reduction of their prime rates by 25 bps, which was faster than market expectations and might signal a change in business considerations. It cannot be ruled out that major banks in Hong Kong will continue to cut their prime rates, though by a smaller margin, as the Fed proceeds with its rate cut cycle in the coming months.

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