

Economic QuickView



FOMC Meeting: The Fed cut rates by 25 basis points in November

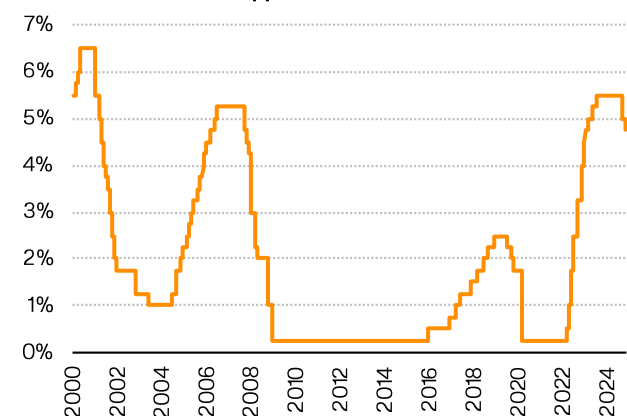
- The FOMC continued on its rate normalisation cycle with a 25 bps cut in November.
- The post-meeting statement removed the description on inflation that the FOMC "has greater confidence that inflation is moving sustainably towards 2%".
- Fed Chairman Powell remains open over the FOMC's next move in December.

The Fed cut rates by 25 bps in November, continuing on its rate normalisation cycle. During its November meeting, the Federal Open Market Committee (FOMC) voted unanimously to lower the federal funds rate by 25 basis points (bps) to a target range of 4.50-4.75%. Simultaneously, the Fed will continue to reduce its holdings of securities. In the post-meeting statement, there were several changes in language compared to September's statement. Notably, the previous description on inflation that the FOMC "has gained greater confidence that inflation is moving sustainably towards 2%" is removed. Additionally, the statement now references that "inflation has made progress... but remains somewhat elevated" instead of "inflation has made further progress." This could signal that the FOMC has remained cautious and attentive towards inflation risks. Regarding the labour market, the statement now mentions that "labour market conditions have generally eased."

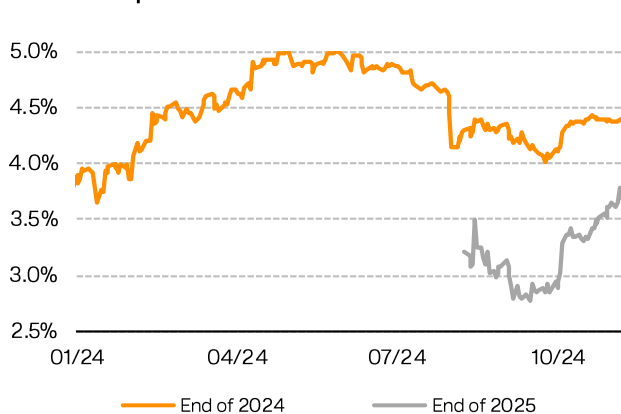
Fed Chairman Jerome Powell is confident that inflation progress remains on track. At a post-meeting press conference, Fed Chairman Powell mentioned that even though the 12-month core PCE inflation rate has stagnated, the 3-month and 6-month core PCE rates were around 2.3%, indicating significant progress has been made since last year. Powell believes that "catch-up" inflation is likely to persist, as significant portions of inflation, such as housing services, will take a while to feed into the data due to the timing and length of housing leases. Thus, he expects inflation is likely to ease further, even though bumps are still likely ahead. When talking about December's FOMC meeting, Powell said that a further rate cut remains open and dependent on upcoming economic data.

Powell also avoided giving concrete forward guidance, citing significant economic uncertainties.

On the election of Trump, Powell stated that the election will have no bearing on policy decisions in the near term. When the timing and substance of any policy changes are clearer, the Fed will model these developments to calibrate its monetary policies accordingly. He also said that he intends to serve out his full term until 2026. On the path forward, Powell said that there is a fair amount of uncertainty, when discussing the rate outlook in 2025. This is especially the case, since there are widespread worries that Trump's economic policy would be inflationary. Overall, existing monetary environment is still restrictive and future policy moves are likely to ease further.

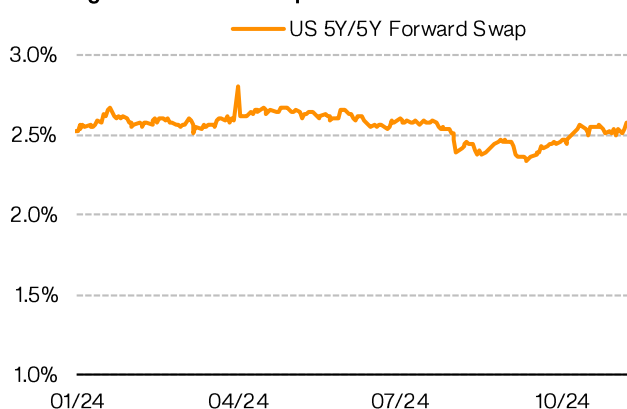
US Fed Funds Rate (Upper)


Source: Bloomberg

US Rate Expectations


Source: Bloomberg, data as of 08/11/2024

We expect one more 25 bps rate cut in December. Going forward, with a further moderation in inflation and a cooling labour market, we expect one more 25 bps rate cut in December and quarterly rate cuts of 25 bps each in 2025 and in 2026 until it reaches the neutral rate of 2.50%-2.75%. Though future decisions and forecasts are still dependent on data and Trump's policy actions, which include his tariff proposals and tax cut plans. Meanwhile, banks in Hong Kong reduced their prime rates by 25 bps after the Fed's cut in November, an unexpected move based on the experiences of prior easing cycles. If the Fed proceeds with a 25 bps rate cut in December, there is a possibility that banks in Hong Kong will follow again and cut their prime rates further next month.

US Long Term Inflation Expectations


Source: Bloomberg, data as of 08/11/2024

US 10-year Treasury Yield


Source: Bloomberg, data as of 08/11/2024

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