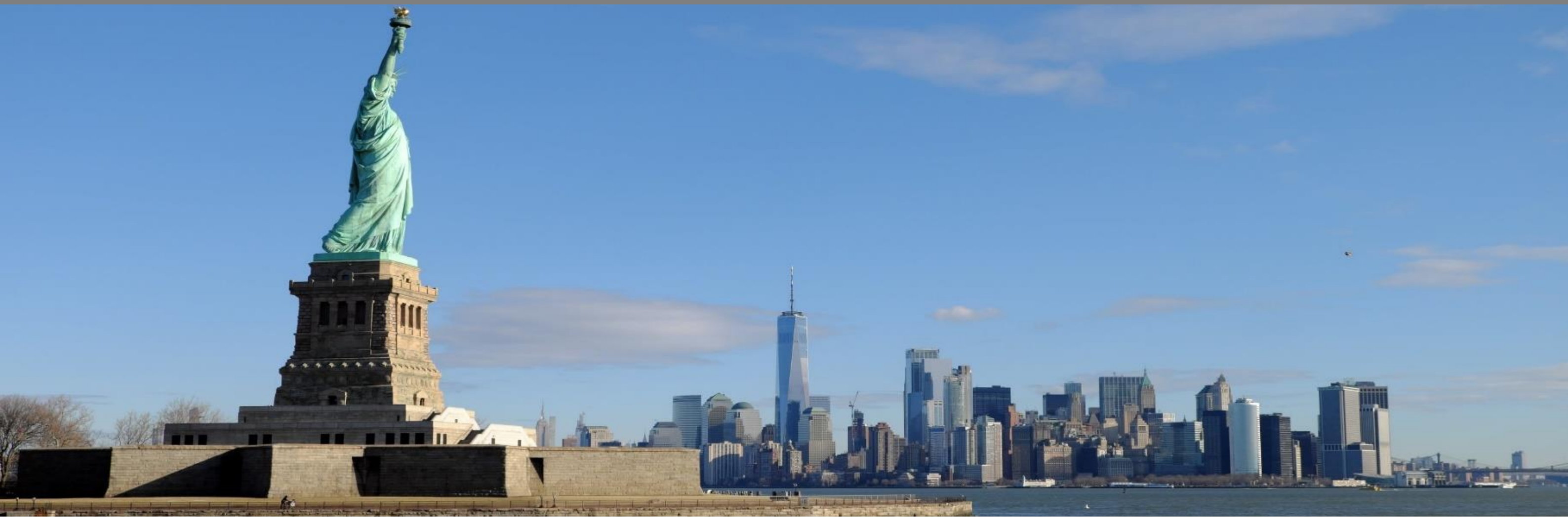
BEA 東亞銀行

Economic Research Department

3 February 2025

Economic QuickView



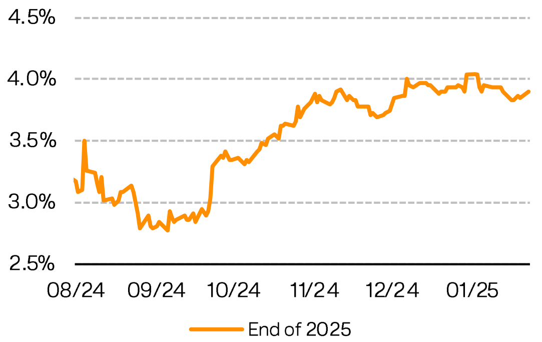
FOMC Meeting: Powell says the Fed is not in a hurry to cut rates

- The FOMC voted unanimously to hold the federal funds rate at 4.25-4.50% in January.
- Fed Chairman Powell repeatedly iterated in the post-meeting press conference that the Fed is in no hurry to cut rates.
- With rates still above the longer-run neutral, we expect the next rate cut to arrive around mid-2025, with a total of 3 cuts (75 basis points) in the whole of 2025.

The Fed held rates steady in January after cutting rates for three consecutive meetings. At its January meeting, the Federal Open Market Committee (FOMC) voted unanimously to hold the federal funds rate unchanged at a target range of 4.25-4.50%, as anticipated. Meanwhile, the Fed would continue to reduce its holdings of securities. The post-meeting statement altered language around unemployment and labour conditions. The phrase "the unemployment rate has stabilised at a low level" was revised to "the unemployment rate has moved up but remains low" and the phrase "labour conditions have generally eased" was replaced by "labour market conditions remain solid". These changes reflected an upgrade from the assessment made in December. In addition, the description around inflation was amended as "Inflation remains somewhat elevated", omitting a reference that "inflation has made progress towards the Fed's 2% target". This suggested a more cautious stance on inflation. However, Fed Chairman Jerome Powell explained in the post-meeting press conference that the changes were just a language clean-up for shortening the sentence.

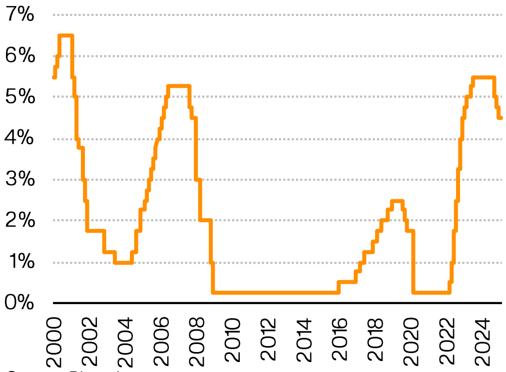
Fed Chairman Jerome Powell emphasised that the Fed is not in a hurry to cut its policy rates. During the post-meeting press conference, Fed Chairman Powell stated that current monetary conditions are in balance and that they want their policy stance to be meaningfully restrictive to foster further progress on disinflation without seeing a further weakening in the labour market. He continued on by mentioning that the Fed would not overreact to two good or two bad inflation readings and would focus on seeing real progress on inflation before considering further policy adjustments. Notably, Powell said that "we seem to be set up for further progress on inflation, but being seemed to set up for it is one thing; having it is another". Overall, this guidance highlighted that the Fed hopes to see sustained progress on inflation. In response to questions related to the Trump administration, Chairman Powell stated that the Fed would wait and see the effects of Trump's policies, including tariffs, immigration, fiscal policy and regulatory policy. He also mentioned that the Fed would not be influenced by Trump's calls for lower interest rates, and it is important for the Fed to act independently to maintain the public's confidence.

US Rate Expectations



Source: Bloomberg

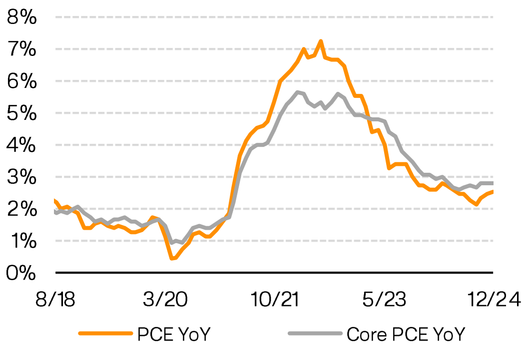
US Fed Funds Rate (Upper)



Source: Bloomberg

We anticipate the next rate cut to be in mid-2025. A few days after the FOMC meeting, December's data of the Fed's preferred inflation gauge, personal consumption expenditures (PCE) inflation, was released. Headline PCE inflation picked up from 2.4% year-on-year (YoY) and 0.1% month-on-month (MoM) in November to 2.6% and 0.3% in December, respectively. Meanwhile, core PCE inflation held steady at 2.8% YoY in December, while rising by 0.2% MoM in December, a slight increase from 0.1% in November. Although not seeing a re-acceleration, recent inflation readings pointed to a stalled progress on disinflation. Moreover, economic growth remained solid in Q4 2024, backed by vibrant consumer spending. Sound economic fundamentals enable the Fed to take a pause until further progress on inflation is seen. Going forward, we expect that the Fed will continue its rate cuts in 2025, especially since existing rate levels are still above the longer-run neutral rate. With the Fed not in a hurry to act, we expect the next rate cut to arrive around mid-2025, with a total of 3 cuts (75 basis points) in the whole of 2025. This forecast will be subject to significant uncertainties, given the upcoming changes in US economic policies. On the rate outlook in Hong Kong, we expect that prime rates are likely to follow the pace of US interest rates, albeit at smaller reductions.

US PCE Inflation



Source: Bloomberg, data as of 31/01/2025

US 10-year Treasury Yield

Source: Bloomberg, data as of 31/01/2025

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