

Monetary policy tracker: US Fed FOMC delivered larger-than-expected 50bp policy rate cut in September

September 30, 2024

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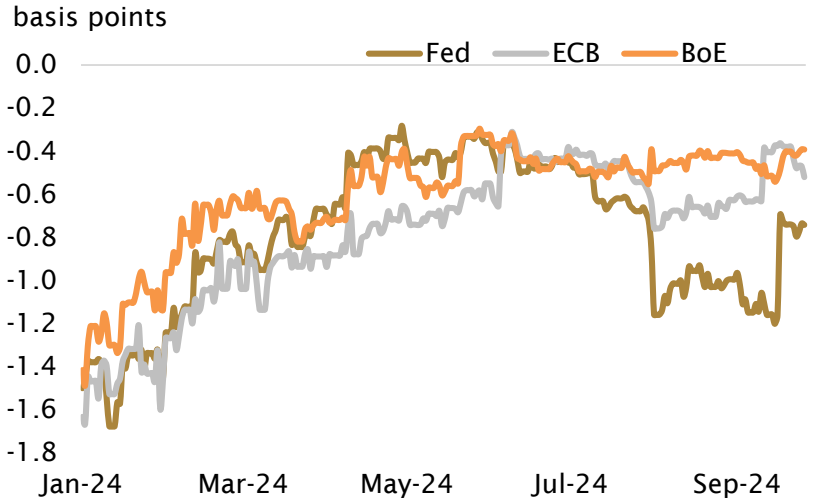
Key takeaways

- The US Federal Reserve embarked on a policy normalization path on September 18 by delivering a larger-than-expected 50bp cut at its meeting, taking the federal funds target range to 4.75-5.00%. The rate cut signaled the start of recalibration of policy towards more neutral settings, the pace and extent of which would remain data dependent. Though the Fed FOMC stated that the risks to its employment and inflation goals were roughly in balance, in the post policy conference, Fed Chair Powell noted the change in the balance of risks with diminished upside risks to inflation and increased downside risks to employment.
- On September 12, the ECB's governing council reduced the deposit facility rate (DFR) by 25bps to 3.50%, the second rate cut this year since the ECB began easing in June. Even as disinflation is on track, growth prospects have weakened, prompting the ECB staff to trim GDP forecasts by 0.1pp for each of the years between 2024-26.
- The Bank of England's Monetary Policy Committee (MPC) held the Bank Rate at 5% in its policy decision on September 18 after a 25bp cut in August that had marked the start of an easing cycle. In the policy statement, the MPC stated its preference for a gradual removal of policy restraint. The MPC also noted that inflation expectations were normalizing, and economic activity was evolving in line with expectations.
- As of September 27, futures pricing for end-December suggested policy easing to the tune of 75bp, 50bp, and 40bp, respectively, by the US Fed, ECB and the BoE, respectively.
- In its policy decision on September 20, the policy board of the Bank of Japan held the uncollateralized overnight call rate at 0.25%. In July, the BoJ had surprised markets by raising the call rate to 0.25% from 0-0.1%, defying expectations of no change.
- After easing key rates in July, the People's Bank of China cut the benchmark 7-day reverse repo rate by 20bp in September to 1.5% from 1.7% and the 1-year medium term lending facility (MLF) rate by 30bp to 2% from 2.3%.
- Other monetary policy changes in September included 25bp cut by the central banks of Canada, Switzerland, and Sweden. In Latin America, central banks of Chile, Mexico and Peru lowered policy rates by 25bp each, while Brazil hiked by the same amount. Among other EM regions, Indonesia and South Africa also delivered rate cuts of 25bp each.

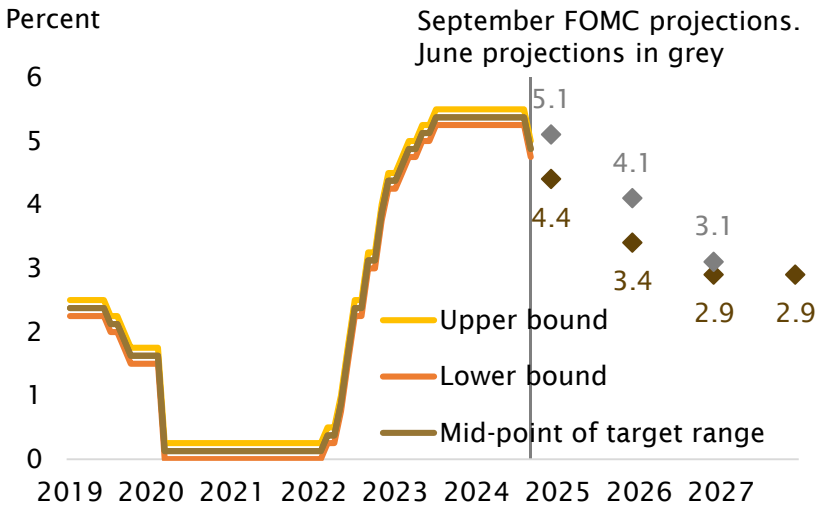
Futures pricing of central bank rate cuts by Dec-2024



US Fed FOMC starts easing with larger-than-expected 50bp rate cut

- In its policy decision on September 18, the US Fed FOMC cut the target range for the policy rate by 50bp to 4.75-5.00% by 11:1 vote, with one member voting for 25bp cut. The 50bp easing was larger than market forecasts (Reuters poll: 5.00-5.25%), though higher probability of it was indicated by the CME FedWatch tool.
- In the policy statement, the FOMC stated that the risks to its employment and inflation goals were roughly in balance, though in the post policy conference, Fed Chair Powell noted the change in the balance of risks with diminished upside risks to inflation and increased downside risks to employment. The rate cut signaled the start of the process of moving towards more neutral policy settings, the pace and extent of which would remain data dependent.
- The dot plot based on latest Summary of Economic Projections (SEP) showed median estimate of additional 50bp easing in 2024, implying total of 100bp cut in 2024, followed by 100bp easing in 2025 and 50bp in 2026, taking target range of policy rate to 2.75-3.00% that is expected to be unchanged in 2027.
- For policy rate in the longer run, the dot plot showed median estimate of 2.50-2.75%, skewing the balance from 2.50% that held till June. The median estimate continued to mask diverse views ranging from 2.375% to 3.750% in the latest SEP.
- As of September 30, CME FedWatch tool showed slightly higher probability of 50bp (56%) cut at the next Fed outcome on November 7, versus 25bp cut (44%).

Fed funds rate projections revised lower in September



Fed FOMC dot plot: Assessment of federal funds rate in the longer run

Longer run	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
4.00									
3.75					••	•	•	•	•
			•	•				•	•
3.50					•	••	••	••	••
									••
3.25		•	•	•	•				•
							•	•	
3.00	••	•	•	•	•	•	•••	••••	••
						•			••
2.75				••		•	•	•••	•••
	•	•	•	••	••	•	•	•	•
2.50	••••••••	•••••••••	••••••••	•••••••	••••••••	••••••••	••••••••	•••••	•••
	•	••	••	•••	•••	•••	•	•	•
2.25	••••••	••••	•••						

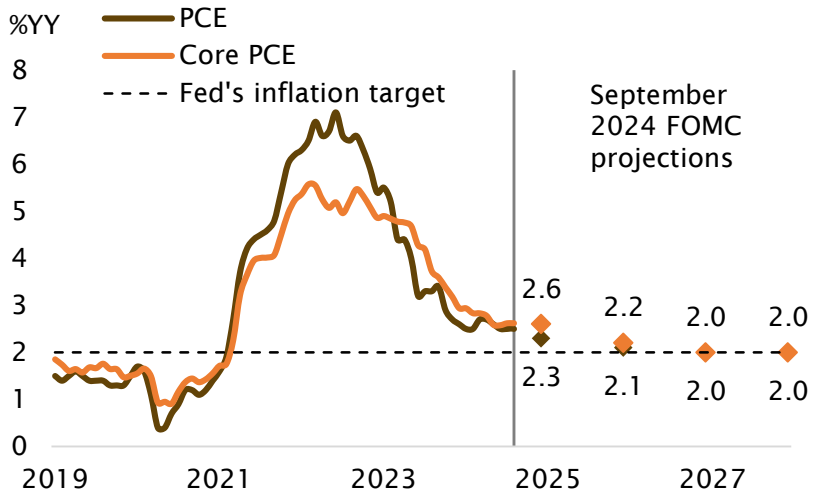
FOMC median views raised for unemployment, cut for inflation

- **Economic activity:** Latest PMI data for September showed that the composite index remained in expansion, indicating solid economic activity but masked the underlying unevenness in growth by sector. The services segment continued to drive momentum, while manufacturing remained in contraction for the third straight month. The weakness in manufacturing was also underscored by the Fed's Beige Book released in August. The uncertainty regarding economic outlook ahead of the Presidential Election also weighed on sentiment.

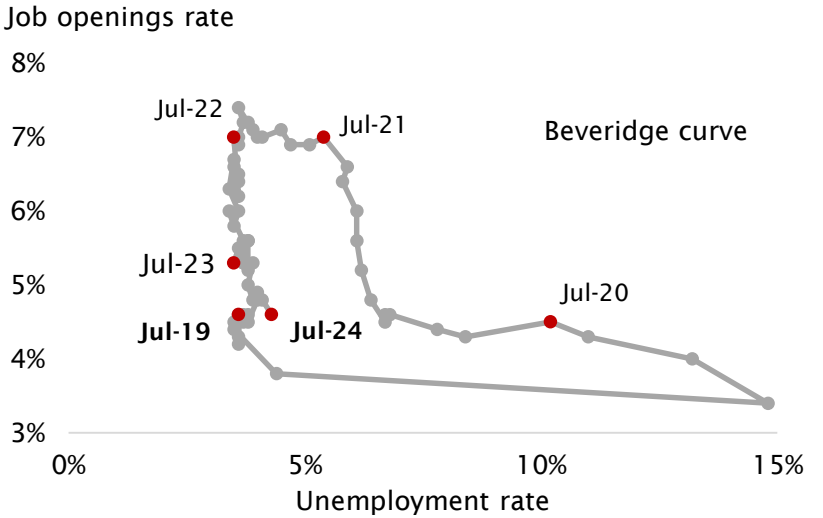
- **Inflation:** Latest data for August shows that headline PCE inflation eased to 2.2%YY from 2.5% in July (Reuters poll: 2.3%). Core PCE, the Fed's preferred gauge of underlying inflation, rose marginally to 2.7% from 2.6% in the previous month but was in line with market expectations (Reuters poll: 2.7%). In the latest Summary of Economic Projections by the FOMC members, median projections for headline and core PCE were lower than June estimates for 2024 and 2025.

- **Labor market:** In August, the unemployment rate eased mildly to 4.2% from 33-month high of 4.3% in July. The Beveridge curve suggests that so far, the cooling of labor market has been mainly through fall in job openings. In the post policy conference, Fed Chair Powell noted that the economy could be close to the point where further decline in job openings could translate into higher unemployment. In the latest SEP, FOMC members penciled in median unemployment rate of 4.4% in both 2024 and 2025, up from 4.0% and 4.2%, respectively in June.

Median estimates for headline, core PCE lowered in SEP



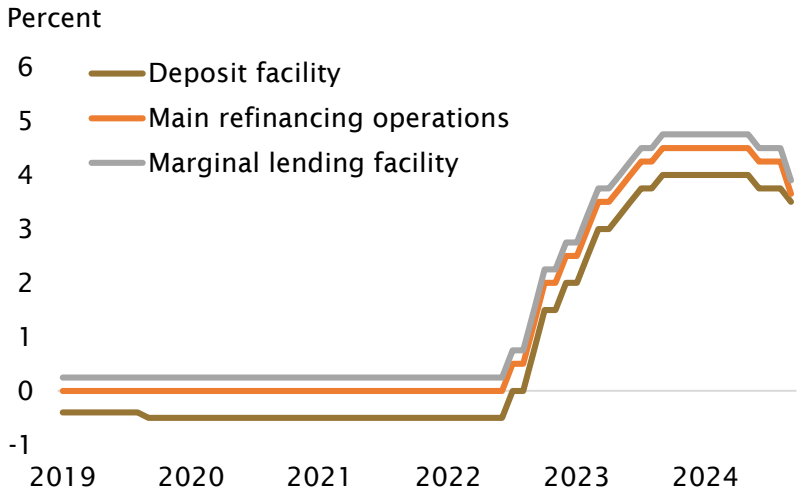
Easing in labor market via decline in job openings



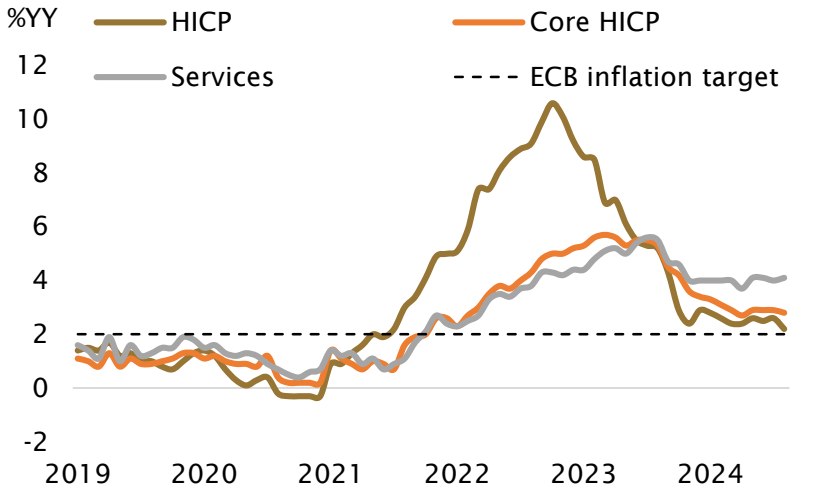
ECB delivered 25bp cut; disinflation on track, growth risks remain

- At its meeting on September 12, the ECB's governing council reduced the deposit facility rate (DFR) by 25bps to 3.50%, the second rate cut this year since the ECB began easing in June and in line with market forecasts (Reuters poll).
- In March, the ECB made changes to the operational framework of monetary policy, effective September 18. These included lowering spread between interest rates on main refinancing operations (MRO) and the DFR to 15bps from 50bps. The spread between MRO and marginal lending facility (MLF) would be unchanged at 25bps. These changes implied a larger 60bp cut to the MRO in September policy to 3.65% from 4.25%. The MLF rate stood adjusted at 3.90% from 4.50%.
- Banks can borrow funds from the ECB for a week at the MRO rate. The MLF and DFR are overnight standing facilities that banks use to borrow from and make deposits with Eurosystem.
- Both headline and core inflation eased in August to 2.2%YY and 2.8%, respectively, from 2.6% and 2.9%, respectively in July but services inflation remained elevated and inched up to 4.1% from 4.0%. In the latest ECB staff projections, headline inflation forecasts were unchanged for 2024-26. Though core inflation forecasts were raised for 2024 and 2025 due to sticky services inflation, the ECB staff continued to peg a rapid decline in core inflation. Wages remain high, though the pace of rise is easing.
- The ECB staff cut real GDP forecasts for 2024-26 by 0.1pp for each year due to weak domestic demand, with risks to outlook remaining tilted to the downside. The PMI data for September reiterated the muted view on growth, with the composite index slipping into contraction after seven months, and continued downturn in manufacturing. On the bright side, price pressures eased that could pave the way for further rate cuts.
- As of September 27, markets were pricing over 80% probability of a 25bp cut at the next ECB decision due on October 17.

ECB cut deposit facility rate by 25bp in September



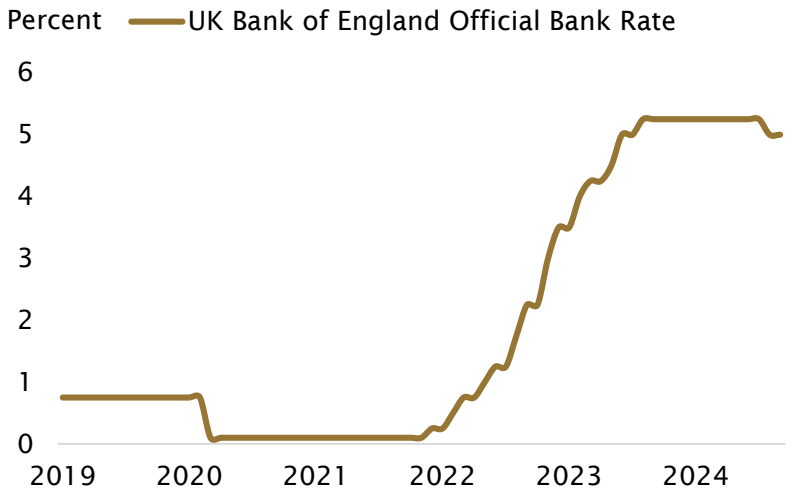
Services inflation remains sticky



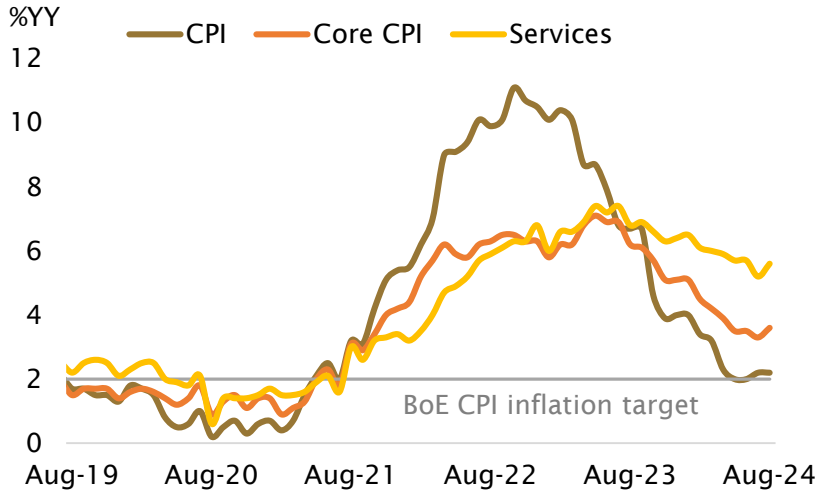
BoE held policy after 25bp cut in Aug; statement shows no rush to ease

- In its policy decision on September 18, the Bank of England's Monetary Policy Committee (MPC) held the Bank Rate at 5% after a 25bp cut in August that had marked the start of an easing cycle. The decision to hold was in line with market expectations (Reuters poll) and supported by 8:1 vote, with one member favoring a 25bp cut. The MPC also decided to maintain the pace of balance sheet runoff at £100bn over the next 12 months.
- In the policy note, the MPC stated preference for a gradual removal of policy restraint. Results from the Bank's latest Market Participants Survey shows median estimate of 25bp cut at the next policy decision on November 7.
- In August, headline CPI was stable at 2.2%YY, while core and services inflation rose to 3.6% and 5.6%, respectively from 3.3% and 5.2%, respectively in July. Though services inflation remained sticky, latest PMI data for September indicated that services inflation had eased to the lowest since February 2021.
- In the policy statement, the MPC noted that inflation expectations were normalizing, and labor market conditions were easing, but stayed tight relative to historical trends. Economic activity was evolving in line with expectations. Though the latest PMI indices for both manufacturing and services softened from August, they remained in expansion and continued to indicate economy growing at a rate approaching 0.3%QQ in Q3, in line with the BoE's staff estimate that was trimmed from 0.4% in the August Monetary Policy Report. In Q1 and Q2, real GDP grew 0.7% and 0.6%, respectively. The MPR had also projected both headline and core CPI inflation to ease to 2% only in 2026.

BoE held policy rate at 5% in Sep after 25bp cut in Aug



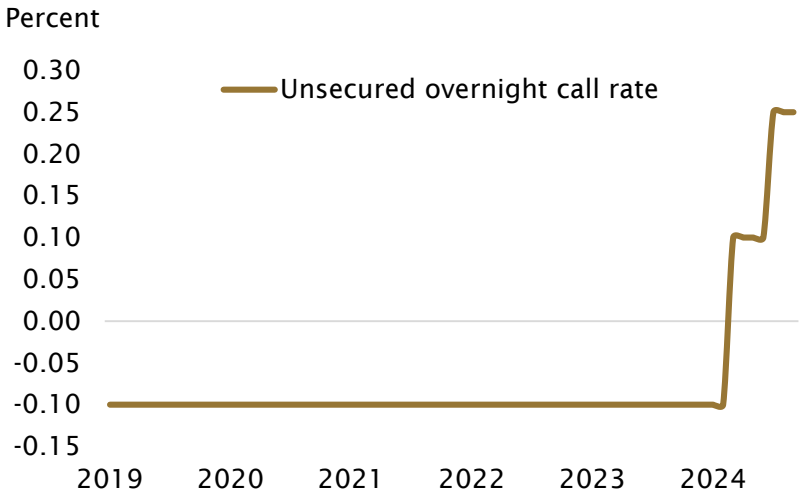
Headline CPI stable in Aug; core and services ticked up



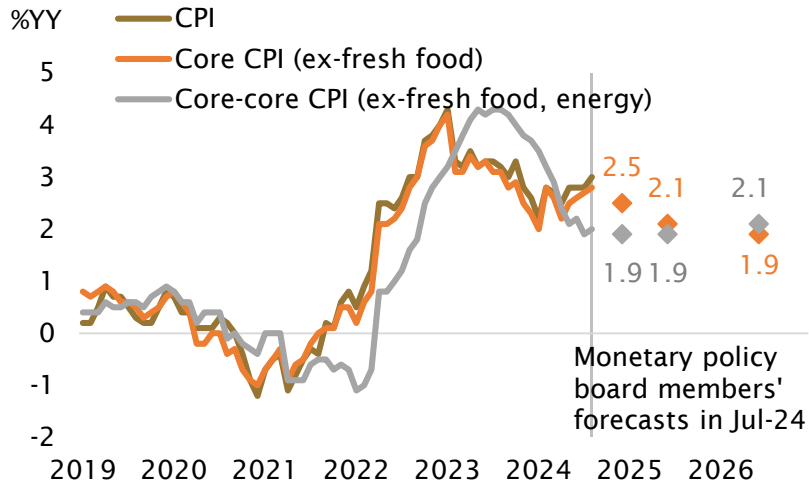
BoJ held policy rate steady after July's hike to 0.25% from 0-0.1%

- In its policy decision on September 20, the policy board of the Bank of Japan decided by a unanimous vote to hold the uncollateralized overnight call rate at around 0.25%.
- In July, the BoJ surprised markets by raising the call rate to 0.25% from 0-0.1%, defying expectations of no change. In March, it had ended an eight-year long negative interest rate regime by hiking the call rate for the first time in 17 years.
- In its assessment of the economy, the policy board noted a modest uptrend in private consumption, an improvement from earlier view on consumption being resilient. The policy board expects economic activity to grow above potential, as high incomes lift spending, and corporate profits aid investment. This year's spring wage negotiations led to the sharpest wage growth in three decades by major firms.
- The composite PMI index for the economy expanded for the third straight month in September, supported by the service sector, while manufacturing activity remained weak.
- In the latest inflation prints for August, headline CPI rose to 3%YY from 2.8% in July, reflecting services inflation due to higher wages and end of government's energy subsidies. These subsidies were subsequently reinstated till October and will lower bills from September. Both core and core-core CPI rose 0.1pp each from July to 2.8% and 2.0%, respectively in August. The board members' latest quarterly forecasts published in July indicate core CPI to ease to 2% in 2025.
- The policy statement noted that pass-through from earlier import price gains had waned, but with firms' raising wages and prices, exchange rate changes were more likely to affect prices than in the past. The next BoJ decision is due on October 31. As of September 27, market was pricing 25% probability of less than 10bp hike by December.

BoJ held policy rate after July hike to 0.25% from 0-0.1%



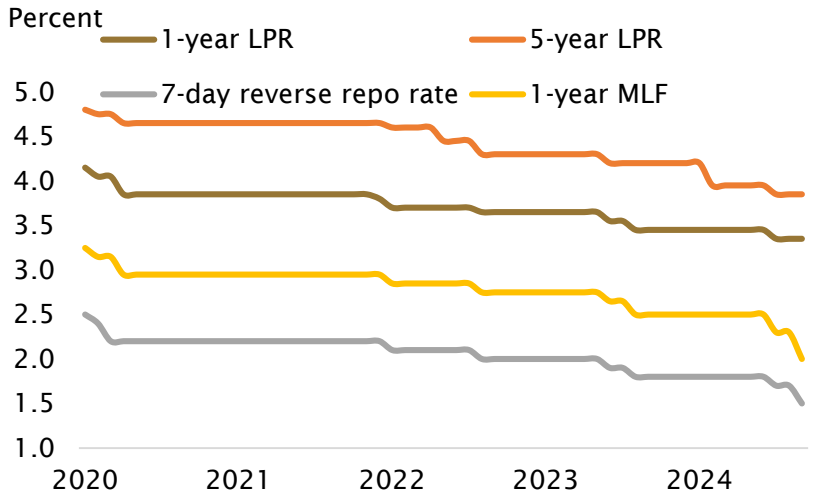
Core CPI expected to moderate to 2% target in 2025



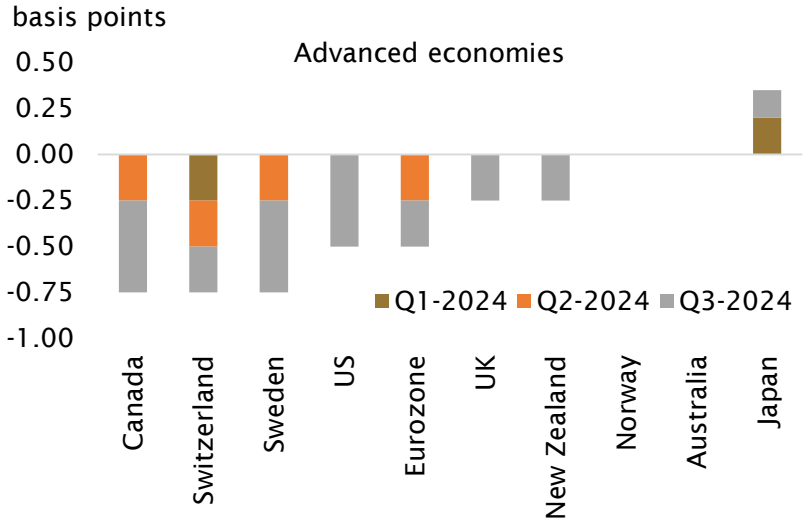
Most central banks easing or on hold; some divergences remain

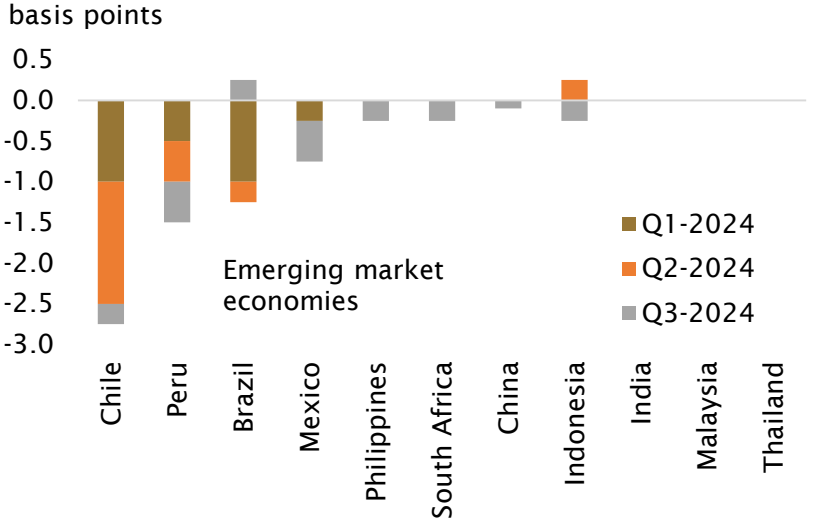
- After easing major policy rates in July, the People's Bank of China again cut the seven-day reverse repo rate by 20bp in September to 1.5% from 1.7% and the one-year medium term lending facility (MLF) rate by 30bp to 2% from 2.3%. Additional measures included lowering required reserves ratio (RRR) for major banks to 9.5% from 10% and reducing the down payment on second home purchases to 15% from 25%.
- Other monetary policy changes in September included 25bp cut by the central banks of Canada, Switzerland, and Sweden. In Latin America, central banks of Chile, Mexico and Peru lowered policy rates by 25bp each, while Brazil hiked by the same amount. Among other EM regions, Indonesia and South Africa also delivered rate cuts of 25bp each.

PBoC cut 7-day reverse repo by 20bp, 1-year MLF by 30bp



Most central banks either eased or held policy rates in Q3-2024, though some divergences remain





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1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

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