

FX Viewpoint Flash

Currencies
Global

USD: When the Fed says cuts are on the table

- ◆ The FOMC made small tweaks to its policy statement in a dovish direction and Chair Powell said cuts are on the table
- ◆ Our economists still expect a 25bp cut in September, followed by 75bp of cuts in 2025
- ◆ The USD weakened slightly after the announcement, but we expect a resilient USD in the months ahead

At its 30-31 July meeting, the Federal Open Market Committee (FOMC) left the federal funds target range unchanged at 5.25-5.50%, an outcome widely expected by markets. There were no updates to the Fed's interest rate projections (known as "dot plot") or economic forecasts; however, the latest statement and the Federal Reserve (Fed) Chair Jerome Powell's press conference both signalled **a strong likelihood that a 25bp rate cut could be delivered at the subsequent FOMC meeting on 17-18 September**, subject, as always, to incoming economic data.

For its eighth consecutive meeting, the Fed left its target rate unchanged, as widely expected

In the latest statement, **there was a dovish shift in the description of the risks to the Fed achieving its dual mandate goals** (i.e., to achieve stable prices and maximum sustainable employment), which now cite "risks to both sides of its dual mandate" against the prior language of being "highly attentive to inflation risks." In response to a question specifically about the September policy meeting at the press conference, Chair Powell said that the FOMC had made no decisions about future meetings, but that the "broad sense" of policymakers was that the economy was moving closer to the point at which a rate cut would be appropriate. He repeatedly suggested a greater comfort with how the data were evolving. **The bar to inaction at the September FOMC seems high.**

A rate cut in September is likely, but the policy path remains data dependent

Our economists still expect only a single 25bp rate cut from the FOMC in 2024, at the September policy meeting, primarily based on their expectations that core inflation may remain somewhat sticky over the remainder of this year. However, **there are risks to this view**, as softening labour market conditions could provide policymakers with an additional reason to consider rate cuts, on top of the recent inflation readings. **Our macro team forecasts 75bp of cuts in 2025, 25bp per quarter in Q1, Q2 and Q3**, as core inflation shows more evidence of sustained downward progress.

Our economists still expect only a single 25bp rate cut by the Fed in 2024, but acknowledge risks that the Fed may deliver more

The USD weakened slightly after the meeting, with the US Dollar Index once again falling below the 104 level (*Bloomberg*, as at 0945 HKT on 1 August 2024). That said, **the July FOMC announcement delivered little of note to challenge our strong USD view**. How the Fed policy rate path develops will hinge on incoming economic data, in particular employment data, as **labour market attrition would remain the missing element needed to deliver the expected sequence of rate cuts**. FX markets are likely to focus on US data performance for direction. However, we think that US economic resilience, relatively high yields, monetary easing elsewhere, and sometimes underwhelming economic activity data outside of the US can still contribute to a firm USD, particularly with so much Fed easing already in the price. **Markets are currently pricing in about 73bp of easing by the Fed in 2024** (*Bloomberg*, 1 August 2024).

We still expect a firm USD

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