



CIO OFFICE MORNING MARKET WRAP

19 September 2024

The Fed surprised the forecasters (including us) with a 50-bps rate cut. The scale of surprise can be gauged by the fact that out of 113 economists surveyed by Bloomberg, only 9 had predicted a 50-bps cut. Chairman Powell in his press address made it clear that the central bank wanted to make a decisive statement against the deterioration in the labour market in a bid not to be behind the curve. He reiterated that the US economy was in a strong position but stopped short of declaring a victory on inflation when pressed about it. This decision was historic as Michelle Bowman became the first Fed Governor to cast a dissenting vote since 2005, preferring a lower rate cut.

Chair Powell said nobody should assume that “this is the new pace” for reductions going forward. The new Dot Plot assumes another 50 bps of rate cut for this year and 100 bps rate cuts next year. Policymakers’ updated projections showed a 4.4% jobless rate for the end of 2024 and 2025, up slightly from the 4.2% rate seen in August. Growth was penciled in at 2% for 2024 through 2027.

Stocks and bonds climbed while the dollar slid in immediate reaction. However, as the session wore on, S&P came down from its intraday highs to close 0.3% lower while yields started climbing as the OIS markets sharply adjusted future rate cuts from 240 bps by next July to 180 bps. As a result, yields across the curve with the 10-year yield trading over 3.7%.

We had mentioned in yesterday’s daily that rate cuts and yield movements do not always go in tandem. In our strategy Note titled “T Bill & Chill No More” released yesterday, we had mentioned that the movement of yields post the first rate cut depends on the progress of the unemployment rate rather than the magnitude of rate cuts penciled in. It is interesting to note that despite projecting a total of 200 bps rate cut by 2025, the policymakers expect the Unemployment to increase to 4.4% from the current levels. In the last 50 years, every time the Unemployment has crossed 4%, it has gone on much higher to touch at least 6%. Would this time be any different?

This morning, the Asian shares are rejoicing the Fed Put narrative. Hong Kong and Mainland China stocks are up 1.34% and 0.7% respectively. Nikkei has gained 2.5% on Yen’s weakness as the currency has lost 0.5% against the greenback this morning. The 10-year US Treasury yield is up 2 bps to trade at 3.72%. Gold has retreated from its all-time highs to trade around \$2,564. Brent Crude has steadied over \$73.5.

After the Fed, we see BOE in action today. The central bank will probably hold its key rate at 5% after last month’s cut. Turkey’s central bank is also expected to keep its rates at 50% today.

Have a great day.

Chief Investment Office
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