



PREVIEW: FOMC Policy Announcement due Wednesday 31st July at 19:00BST/14:00EDT, Chair Powell's Presser/Q&A at 19:30BST/14:30EDT

The Fed is expected to hold the Federal Funds Rate at 5.25-5.50% at its 31st July meeting at 19:00BST/14:00EDT. Note, there are no new SEPs due at this meeting. As such, market participants will be looking out for any commentary or guidance laying the groundwork for a September cut, although there is unlikely to be any explicit commitment, and there is plenty of data between now and the September 18th confab as the Central Bank continues its data-dependent approach. As a result, traders will be attentive to the statement to see if they adjust their language on guidance or inflation. Chair Powell – whose presser begins at 19:30BST/14:30EDT – will also be in focus, and he may offer similar comments to his recent appearances, whereby he noted the last three inflation readings do add confidence that inflation is returning to target.

RATES: The Fed is widely expected to leave rates on hold at this meeting, with the first rate cut not expected until September. Currently, money markets price the first 25bps cut by September, with 68bps priced in-by year end, which implies two 25bp rate cuts, and a 72% implied probability of a third. That is in contrast with the Fed's June SEPs, where the median dot plot saw policymakers pencil in just one cut this year, although the range of forecasts were for between two rate cuts and zero. The Fed is also facing pressure from former officials who have urged the Central Bank to cut rates sooner. Former NY Fed President Dudley recently revised his 'higher for longer view', arguing that the Fed should begin cutting now; he said the Fed's efforts to cool the economy were now having a visible effect. Nonetheless, the Fed is still very likely to reiterate its data-dependent approach with plenty of metrics due ahead of the 18th September gathering. As Credit Agricole quips, Powell is likely to offer similar comments to recent appearances, which have admitted recent inflation data has helped build confidence required to cut rates, placing further emphasis on the labour market, and on balance hinting cuts are closer, but not quite there yet.

STATEMENT: Powell entered into the blackout period refraining from providing fresh guidance, noting that meetings will be taken on a meeting-by-meeting approach. With September largely expected to be when the Fed kicks off the easing cycle, it will be interesting to see if they provide explicit guidance to this in the statement. The guidance currently reads "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent". Any tweak to this, would be seen as a hat tip to a September rate cut. However, given there is still plenty of data due between the two meetings, the Fed may opt to maintain guidance and reiterate their data dependent, meeting-by-meeting approach. Meanwhile, Barkin (2024 voter) recently remarked he is sure the Fed will debate at the July meeting whether it is still appropriate to describe inflation as elevated, therefore we will be looking to the July statement to see how their inflation description changes. Currently, it reads "Inflation has eased over the past year but remains elevated", it also "judges that the risks to achieving its employment and inflation goals have moved toward better balance over the past year".

ECONOMY: Overall, while price pressures have eased recently, and there have been signs of a labour market slowdown, officials appear in no rush to cut rates, with some still wanting greater confidence that inflation would fall to target sustainably. Economists and market-based pricing expects officials will have this greater confidence by the 18th September meeting. On the decision, ING states, "US data should give officials more confidence that inflation is heading to 2% and suspect attention will start focusing on achieving a 'soft landing' for the economy." As a result, ING says the meeting should lay the groundwork for a September rate cut as policy starts shifting from restrictive territory to something more neutral. In terms of recent data, CPI was, once again, cooler-than-expected across the board, with PCE data seeing the core slightly above consensus and headline in line, but the latter did little to change the Fed narrative.

RECENT FED SPEAK: Fed officials have largely toed a similar line in recent speeches, with Fed Chair Powell last speaking at the Economic Club of Washington DC, on 15th July, whereby he led with a more dovish tone albeit still mostly echoing previous remarks. Highlighting this, the Chair did acknowledge the last three inflation readings do add confidence that inflation is returning to target, but more good data will add to that confidence - suggesting the Fed still wants a bit more progress. The Fed Chair refrained from providing any policy guidance, noting that decisions will be on a meeting-by-meeting basis, and he is not going to send any signal on any particular meeting. Williams (voter) noted the Fed is closer but not ready to cut, but it will be appropriate in the coming months as further data will help provide confidence on inflation. Lastly, Waller (voter) remarked the time to cut policy rates is getting closer based on the analysis of potential scenarios, although, his ("probably more likely") scenario is uneven inflation data ahead showing progress and a cut in the near future more uncertain, suggesting the path ahead may not be as clear as thought. Many officials also echoed Powell in noting that an unexpected weakening of the labour market, would also be a reason for the Fed to react.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com