

FX Viewpoint Flash

Currencies
Global

Mixed signals for the USD after the Fed's 50bp cut

- ◆ The Fed cut rates by 50bp, challenging our view of USD strength...
- ◆ ...but markets are likely to need more dovish signals for further USD weakness...
- ◆ ...and the USD may enjoy support ahead of the US elections

The Federal Reserve (Fed) began its easing cycle with a 50bp cut at the 17-18 September meeting, taking the federal funds target range to 4.75-5.00%. **The decision was not unanimous, with one dissenting vote for 25bp.** The reported Bloomberg consensus among economists ahead of the meeting was overwhelmingly for a 25bp cut, but many (HSBC's economics team included) seemed to view the outcome as more finely balanced. Markets also saw the outcome as uncertain but was skewed towards a 50bp cut, rather than a 25bp cut. It means **the Fed's first cut of the cycle was on the dovish side of expectations.** The USD reacted accordingly, with initial weakness, but the signals were mixed.

The Fed cut rates by 50bp, vindicating the dovish side of market expectations

The Federal Open Market Committee (FOMC)'s median interest rate projections (known as "median dots") and the tone of Fed Chair Jerome Powell's press conference pared back the USD bearish signal that this initial 50bp easing sent. In particular, **the 2024 median dot showed only another 50bp of easing by year-end.** Fed Chair Powell also reinforced the less dovish signal from this 2024 dot. He noted that **there is nothing in the forecasts "that suggests the committee is in a rush."** He also said **the Fed is not behind the curve** and added that he does not "think anyone should look at this and think this is the new pace" – in reference to the 50bp cut. Future decisions will be taken on a meeting-by-meeting basis, including a "pause if that is appropriate" (*Bloomberg*, 18 September 2024).

The Fed is not in a rush to ease, and will make decisions on a meeting-by-meeting basis

Median of the FOMC's key economic projections	2024	2025	2026	2027	Longer run
Real GDP growth, Q4/Q4					
September 2024 projection	2.0%	2.0%	2.0%	2.0%	1.8%
June 2024 projection	2.1%	2.0%	2.0%	N/A	1.8%
Unemployment Q4/Q4					
September 2024 projection	4.4%	4.4%	4.3%	4.2%	4.2%
June 2024 projection	4.0%	4.2%	4.1%	N/A	4.2%
PCE inflation Q4/Q4					
September 2024 projection	2.3%	2.1%	2.0%	2.0%	2.0%
June 2024 projection	2.6%	2.3%	2.0%	N/A	2.0%
Federal funds rate, year-end					
September 2024 projection	4.375%	3.375%	2.875%	2.875%	2.875%
June 2024 projection	5.125%	4.125%	3.125%	N/A	2.750%

Source: Federal Reserve

Our economists now forecast 25bp rate cuts at each of the next six policy meetings (although **another 50bp "front-loaded" rate cut remains a risk for November**), taking the federal funds target range down to 3.25-3.50% by next June. Another risk for 2025 is that the path of the economy and prospective Fed easing could be influenced by policy choices made as a consequence of the US election outcome.

Our economists now expect an additional 25bp rate cut at each of the next six FOMC policy meetings

The Fed's decision to cut by 50bp is a challenge to our view of USD strength in the months ahead. **It will be interesting to see how patient the Fed's tone sounds in the weeks to come**, and the FX market is likely to remain sensitive to upcoming US data releases. Perhaps, market doves and USD bears will be satisfied with this FOMC outcome, but they are likely to need more dovish data for further USD weakness. It is also possible that **the USD will enjoy support as US election uncertainty is set to loom large over the coming weeks.** For now, it has been mixed signals for the USD.

We see mixed signals for the USD

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