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Instant Thoughts

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Keeping At It

- The FOMC validated the market's expectation for a third 75bps rate hike today.
- Chair Powell goes to the distance to ensure inflation will be brought down, even if "far greater pain later on" was inflicted.
- Forecasts get dinged, but surprisingly, it's still largely a soft-landing profile.
- Chair Powell can detail the conditions needed to begin slowing the increment beyond today. The Fed is virtually bound to do another 75 at the November meeting and then 50 in December
- The past few months has made a monkey out of anyone predicting the end of dollar rally. The USD call is, after all, a US inflation call.

The FOMC validated the market's expectation for a third 75bps rate hike today. But a unanimous 75bp hike is hardly a slam dunk this day. Investors have a keen eye for the Powell's messaging and dot plot.

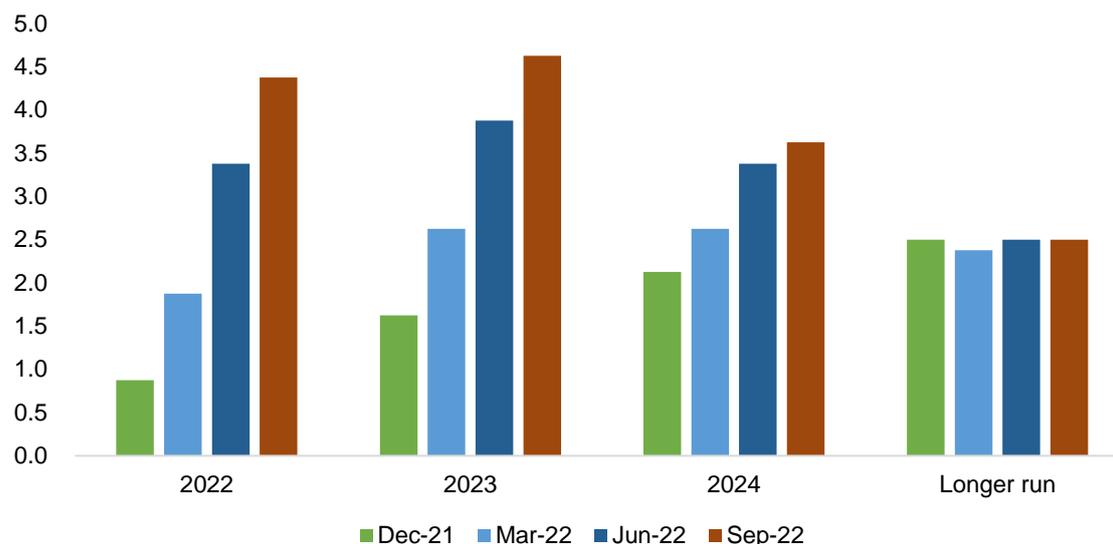
"Without price stability, the economy does not work for anyone," Chair Powell concluded. He goes to the distance to ensure the Fed will get on top of inflation, even if "far greater pain later on" was inflicted. Forecasts get dinged, but surprisingly, it's still largely a soft-landing profile. As if a whiff of labor market weakness will generate enough headwinds to inflation, the unemployment rate in 2023 is only revised up to 4.4%. We aren't convinced. We just don't see a compelling catalyst for the economy to bounce out of what we think will be a recession.



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Either way, dot plot veered towards a decidedly more hawkish outcome. The median rate for this year was taken from 3.375% to 4.375%. More tightening is signalled for 2023 with the year-end rate at 4.625%.

Exhibit 1: Median Rate Forecast (%)



Source: Federal Reserve, Shanghai Commercial Bank

Chair Powell can detail the conditions needed to begin slowing the increment beyond today. But he didn't. He didn't sound at all concerned about nascent weakness in the job market. There's no off-ramp from this aggressive tone. The Fed is virtually bound to do another 75 at the November meeting and then 50 in December

The past few months has made a monkey out of anyone predicting the end of dollar rally. The USD call is, after all, a US inflation call. Our thought is reminiscent of Forrest Gump's wisdom, "If you are ever in trouble, don't try to be brave, just run, just run away."



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