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Instant Thoughts

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Eyes on the Road

- **The much-followed dot plot was delivered in an anticlimactic manner: It offered a bit of something for everyone. Most officials still penciled in three rate cuts this year, but it takes only one member to nudge the median higher.**
- **Chair Powell waved the stubbornness of inflation off lightly and left a line that “the story is really essentially the same.” Neither a slower pace of hiring nor soggy inflation is a prerequisite for cuts to his eyes.**
- **We see scope for the Fed to cut rates by 75bp this year, starting in June when jobless rate rises above 4%.**
- **Being on a conveyor-belt towards cascading cuts is an outcome already sniffed out by dollar traders. Powell’s dovish undertone just reinforces a “sell the really” mentality in USD.**

There’s shortage of drama on Fed day. Not only was the on hold decision widely anticipated, the much-followed dot plot was delivered in an anticlimactic manner: It offered a bit of something for everyone. Most officials still penciled in three rate cuts this year, but the margin is razor-thin. Each vote everywhere counts. It takes only one member to nudge the median higher.

This divisive view could be a hint that Fed is preparing its alibi, not its true intention. Who has the final word then? Chair Powell, the high priest of monetary policy.

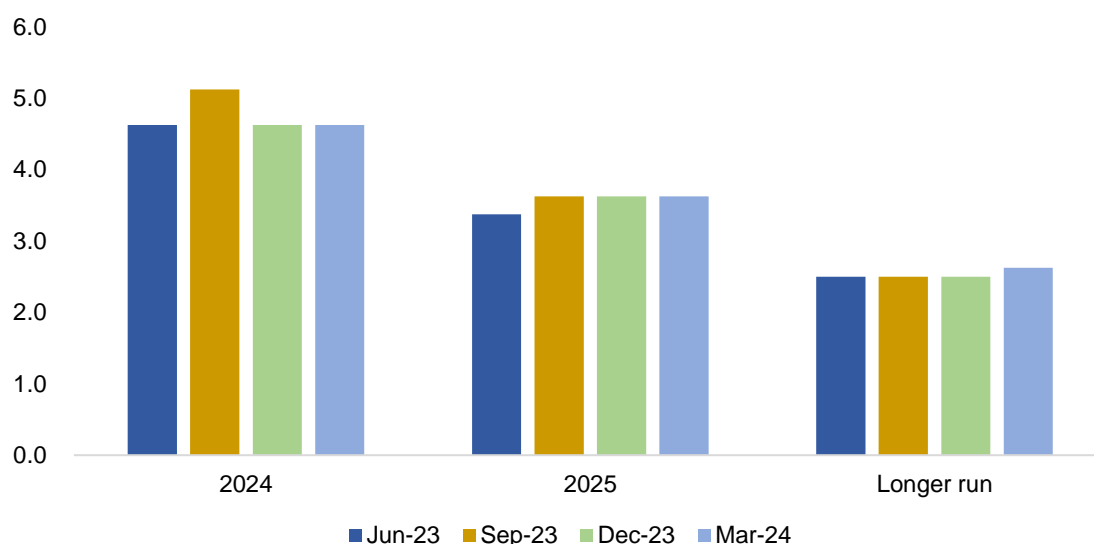


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He waved the stubbornness of inflation off lightly and left a line that “the story is really essentially the same.” Sticking to the same script he laid out in the congressional testimony, neither a slower pace of hiring nor soggy inflation is a prerequisite for cuts. Even his silence conceals a sting. He was dismissive of March’s cut in January, but he was restrained from making a similar comment today, not even a tacit one.

Said differently, this is a Fed that will need to be surprised badly by inflation to back away. We see scope for the Fed to cut rates by 75bp this year, starting in June when jobless rate rises above 4%.

Exhibit 1: Median Rate Forecast (%)



Source: Federal Reserve, Shanghai Commercial Bank

Being on a conveyor-belt towards cascading cuts is an outcome already sniffed out by the dollar traders. Powell’s dovish undertone just reinforces a “sell the really” mentality in USD.

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