

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Instant Thoughts

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One Last Hold

- **Powell knows what we know, which is that data continue to flag a not-so-welcoming cooling in labor.**
- **If the inflation data and the economy develop as expected, he hinted, a cut in September is on the table.**
- **A cut at the next meeting is virtually a done deal, and each of the subsequent meetings seems live for more cuts.**
- **The prospect of a flattening yield curve will keep the dollar on the soft side. The temptation to dip toes back into the carry trade might be reignited were USD/JPY to trade under 150.**

Fed officials aren't persuaded of the case of an immediate rate cut, but offering enough to convince markets with a September rate cut.

The FOMC statement now cited "risks to both sides of its dual mandate," which is hardly seismic. And Chair Powell used all the caveats on what could stop a cut, included the long runway between now and September. As Dutch painter Piet Mondrian puts it though, "one cannot call oneself an atheist without really having experienced some form of religion." The subtle change in his tone cracked open the door for a potential rate cut as soon as the next meeting in mid-September.

Powell knows what we know, which is that data continue to flag a not-so-welcoming cooling in labor. That's why he is hinting that, if the inflation data and the economy develop as expected, a cut in September is on the table. He even volunteered to answer in details to follow-up questions that he normally would have ditched in the past. Reading between the lines, a cut at the next meeting is virtually a done deal, and each of the subsequent meetings seems live for more cuts.



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Yields edged higher post meeting as Powell has thrown us with enough ifs and buts to tame the rate cut enthusiasm. The prospect of a flattening yield curve will keep the dollar on the soft side. The temptation to dip toes back into the carry trade might be reignited were USD/JPY to trade under 150.



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