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# Instant Thoughts

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## Rate Behaving Badly?

- **What mystifies many is why the market is so enthusiastic about a 50bp cut by the Fed. The Fed has never commenced a rate cycle with a double-decker cut, unless it came at an unscheduled meeting or was preceded by one.**
- **Caveats, of course, abound in historical parallels. Recall the downbeat beige book is what did it for Powell for him to pivot last December. The latest beige book reveals an even dimmer situation than that one. We believe Powell is going to push for a 50bp cut in September.**
- **Still, overtaking everyone, including the supply-impaired UK and recession-stricken New Zealand, seems excessive to us. There's more upside to owning the front end of the curve.**

September has just started, and it is already living up to its notoriety of being the harshest month of the year for asset markets. Investors are trapped in the defeatist mindset animated by Daniel Kahneman, "a single cockroach will completely wreck the appeal of a bowl of cherries, but a cherry will do nothing at all for a bowl of cockroaches." Nvidia, once the poster child of an AI revolution, is now deemed that cockroach.

What mystifies many is why the market is so enthusiastic about a 50bp cut by the Fed. The Fed won't spare the horses, as implied by Fed Funds future, with a 50bp move fully baked in at one of the next three meetings.

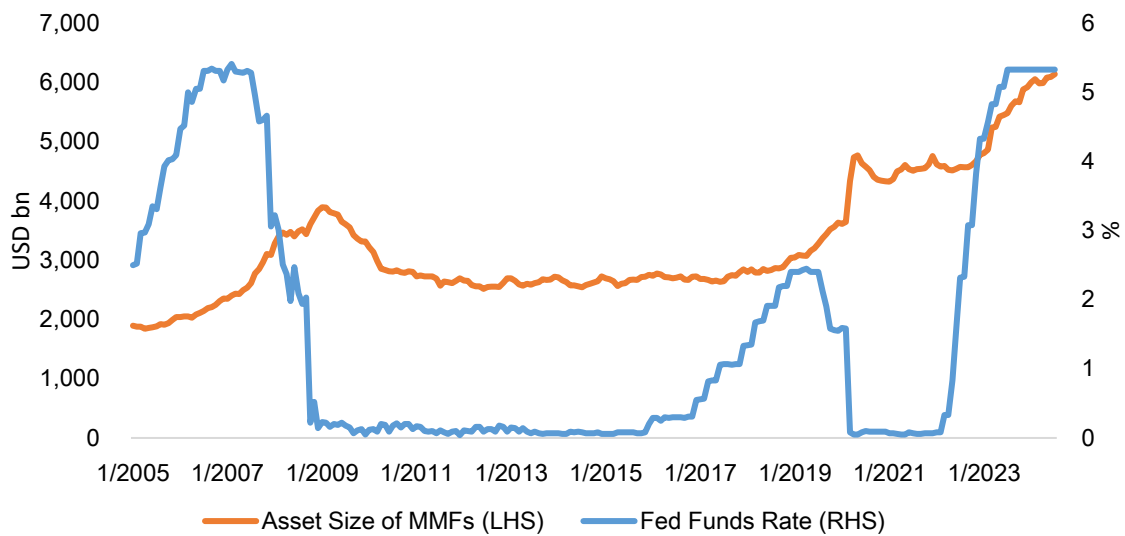
A 50bp cut is exceptional in the modern era. The Fed has never commenced a rate cycle with a double-decker cut, unless it came at an unscheduled meeting or was preceded by one. The inflation anchor undeniably held, and about half of the Americans will be upset about the presidential race regardless of who wins. Is it urgent enough for the Fed to call for an emergency meeting? Chair Powell is not a man of high drama.



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But caveats abound in historical parallels. A simple exercise makes an underappreciated point. Recall the downbeat beige book is what did it for Powell for him to pivot last December. The latest beige book reveals an even dimmer situation than that one, reporting “most of the 12 bank districts saw “flat or declining activity”. Commentators would counter that, the cash sitting on the sidelines could save the day, with or without Fed’s easing. Glancing through Exhibit 1, one is left uneasy that money market funds (MMF) had been slow to budge during previous rate-cut cycles, let alone cornering the market. We believe Powell is going to push for a 50bp cut in September.

**Exhibit 1: MMF and Fed Funds Rate**



Source: CEIC, Shanghai Commercial Bank

The fed funds futures are priced to cut the most in G10, while having the best growth pulse. Overtaking everyone, including the supply-impaired UK and recession-stricken New Zealand, seems excessive to us. There’s more upside to owning the front end of the curve. At least as the purist would look at it.



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