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Instant Thoughts

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Starting Off With a Bang

- **Most Fed officials were on board with slashing the funds rate by 50 bps in their opening salvo.**
- **Chair Powell attempted to sell the 50bp rate cut as a “recalibration”, not a rush towards neutral. The median dot assumed only two more 25bp cuts left for this year.**
- **Powell has unrolled a near flawless opening to the rate cut campaign, but markets are usually messier than this. The calculus for this Fed may be that simple. We expect policy makers to cut rate at each of the meetings over the first half of 2025.**
- **The US Dollar Index fails to break its previous low. It probably speaks to dollar shorts a bit trapped. The downside dollar trade could be done now for a few week.**

“The first cut is the deepest”, as Rod Stewart sings. Most Fed officials were on board with slashing the funds rate by 50 bps in their opening salvo, bringing it to 4.75%- 5.0% today. Governor Bowman was the brave lone dissenter.

What had changed since July? The Fed’s unemployment rate forecast rose by 0.4 percentage point to 4.4%, a stone’s throw away from the red line of 5%. And this feels like an issue that Chair Powell needs to get off his chest in the presser. He described the labor market as looser than before the pandemic. The Fed can always print more money, but it can never create more time. The outsized cut could thus be considered as a makeup for that missed opportunity to reduce rates in July.

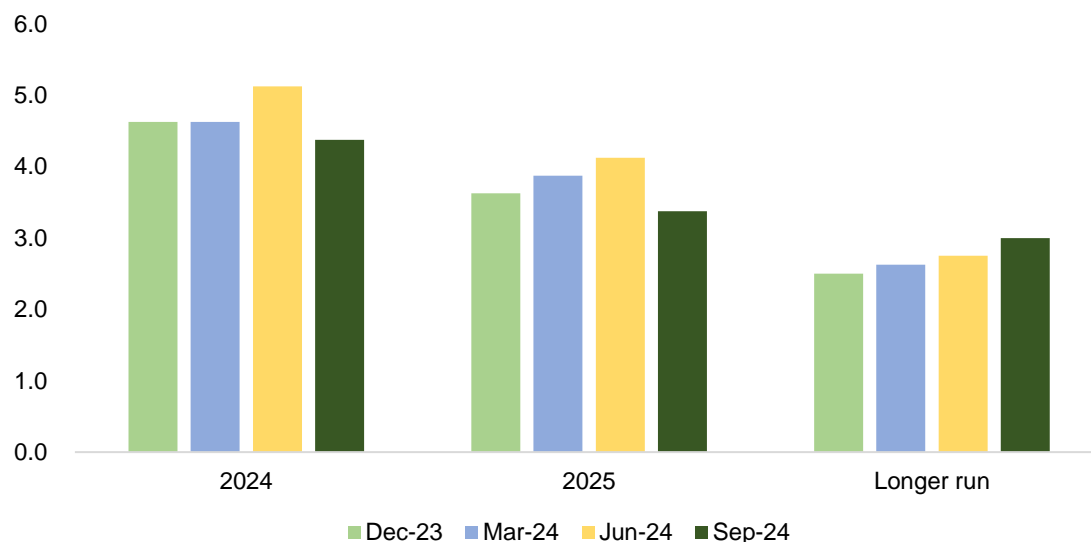
If monetary operation is an art, the Fed takes that to the extreme. Powell attempted to sell the 50bp rate cut as a “recalibration”, not a rush towards neutrality. Hammering this idea home, the median dot assumed only two more 25bp cuts left for this year.



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To us, the cat feels out of the bag. The Fed may find themselves having a hard time justifying a pause, whilst anything went astray could lead to more jumbo rate cuts. Powell has unrolled a near flawless opening to the rate cut campaign, but markets are usually messier than this. The calculus for this Fed may be that simple. We expect policy makers to cut rate at each of the meetings over the first half of 2025.

Exhibit 1: Median Rate Forecast (%)



Source: Federal Reserve, Shanghai Commercial Bank

Fed's decision has made investing simple — but not easy. The US Dollar Index fails to break its previous low. It probably speaks to dollar shorts a bit trapped. The downside dollar trade could be done now for a few week.

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