



US Fed FOMC holds policy rate steady; slower pace of balance sheet reduction from June

May 7, 2024





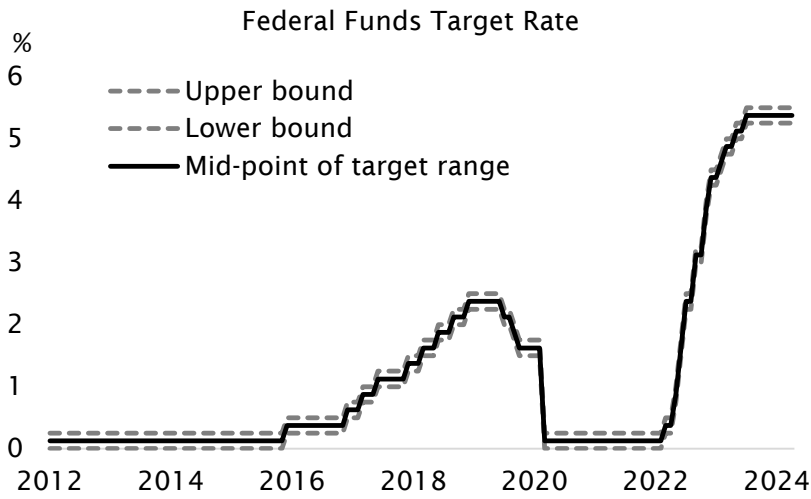
Key takeaways: US Fed FOMC meeting, May 2024

- At the latest meeting of the US Federal Reserve (Fed) Federal Open Market Committee (FOMC) that concluded on May 1, the committee kept the **target range for the federal funds rate unchanged at 5.25-5.50%**, implying no change since July 2023. However, in its latest statement, the FOMC noted the “**lack of further progress towards the 2% inflation objective in recent months.**”
- The FOMC decided to **slow the pace of its balance sheet reduction** by lowering the monthly redemption cap on Treasury securities from USD60bn to USD25bn, starting June 2024. In the post policy conference, Chair Powell noted that the **next move by the FOMC is unlikely to be a hike**. While financial markets sought respite in this statement, Chair Powell also stated that the FOMC was **prepared to hold rates steady for as long as needed**, at least until the pace of disinflation was sufficient to give confidence for a rate cut.
- **Economic data remains mixed, with certain pockets of weakness.**
 - While recent inflation prints, including the employment cost index, were unexpectedly strong, there was a marked slowdown in the latest headline GDP data.
 - Monthly change in nonfarm payrolls, one of the key indicators of labor market conditions, moderated to a six-month low at 175,000 in April.
 - Conference Board’s Consumer Confidence Index deteriorated for the third consecutive month in April, reaching its lowest level since July 2022 amid concerns over current employment situation.
 - The Fed’s latest Beige Book noted weakness in discretionary spending in several districts due to consumers’ elevated price sensitivity, which was also noted in the minutes of March FOMC meeting.
 - There have also been lingering concerns over credit quality of certain consumer and commercial real estate loans, and their linkages to the banking system. The New York Fed’s latest quarterly report on household debt and credit (Q4-2023) noted higher credit card and auto loan transitions into delinquency, signaling financial stress, especially among younger and lower-income households.
- The next US Fed FOMC meeting is scheduled on June 11-12.

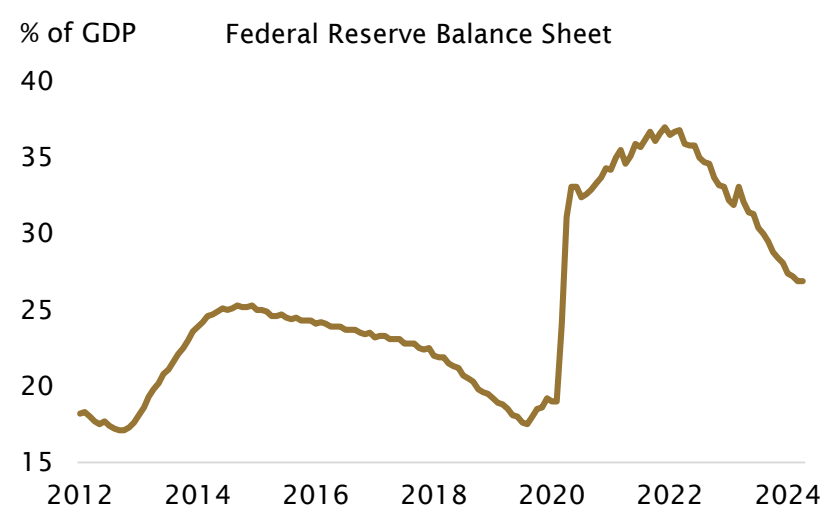


Policy held steady; balance sheet reduction to ease as expected

Target range for Federal Funds rate held since July 2023



Pace of Fed balance sheet reduction to moderate from June



Fed FOMC dot plot: Assessment of federal funds rate in the longer run

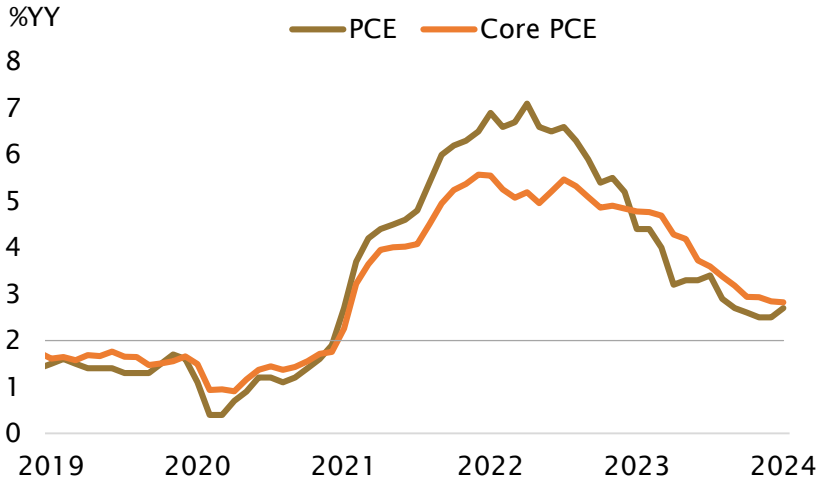
Longer run	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
4.00										
3.75								••	•	•
3.50						•	•	•	••	••
3.25					•	•	•	•		•
3.00	••	••	••	••	•	•	•	•	•	•••
2.75				•	•	•	••	•	•	•
2.50	••••••••	•••••	••••••••	••••••••	••••••••	••••••••	••••••••	••••••••	••••••••	••••••••
2.25	••••	••••••••	••••••••	••••••••	••••	••••				•
2.00	•	•	•							

Median estimate of 2.5% policy rate in the longer run masks the divergent views between FOMC members that are increasingly aligned towards a higher terminal rate of 3% and above, and away from sub-2.5%. For 2024 and 2025, the latest dot plot (Mar-24) indicates median view of 75bp cut in both the years.

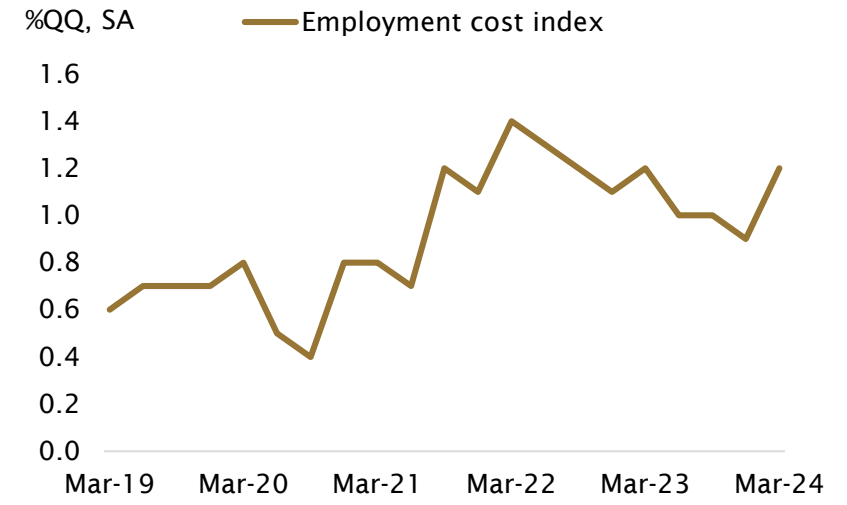


Mixed signals from economic data

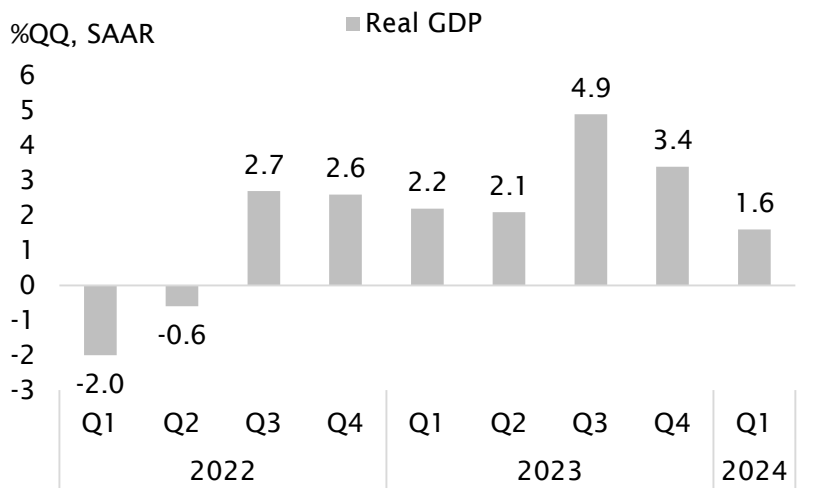
Recent PCE inflation stronger than expected



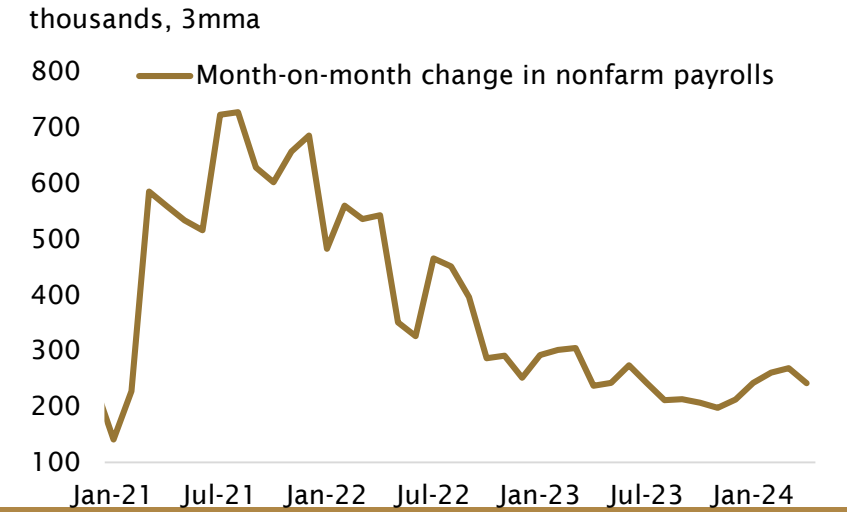
Latest ECI print surprised on the upside



Real GDP growth in Q1-2024 firm but continued to moderate



Increase in nonfarm payrolls eased to six-month low in April





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