

FED'S 25-BP CUT ALIGNS WITH MARKET EXPECTATIONS



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CB: *Good afternoon, everybody. It's Christian Brobst here with Chuck Carmody again to discuss this afternoon's Fed statement and the following press conference with Chair [Jerome] Powell.*

As expected, Chuck, we got a 25-basis point cut in the Federal funds rate, which was roughly priced in by about a 96% probability ahead of the meeting, so it was almost a shoo-in. And then we did get some follow-up details on both the T-bill purchase program that they'll be running through the second quarter of next year, as well as some additional commentary from Powell on the balance sheet.

I'll turn it over to you and just ask if there was anything particular in the statement that stood out to you?

CC: I thought things were largely as expected today. Obviously, this had been billed as the final insurance cut. Had they continued to cut beyond this, it would beg the question whether these were insurance cuts and if, in fact, we've

entered an easing cycle. Powell went out of his way to dispel that.

As far as the statement, there was really not much new. I think the one part I would highlight would be they removed the phrase, 'to act as appropriate' from the statement. I think, again, this signals that these insurance cuts are largely over and that any future action will be data dependent.

The only other thing I'd highlight from the statement is that we had [Esther] George and [Eric] Rosengren dissent once again in favor of maintaining the target rate at 1.75%–2%.

The economic projections that were included with today's statement were largely unchanged. The only notable change was that the GDP projections were slightly higher; otherwise, things were similar to what we saw back in June.

CB: *And to your point about the bar being high for further action, I think that stands on a balancing line between whether that next action would be a tightening—a rate*

hike—or a Fed cut. Regardless of which direction, the bar is higher now.

Turning to the press conference, what were some of the key things that stood out to you there?

CC: There were three things I'd highlight from the press conference. First off, Powell stated that risk to the outlook has moved in a positive direction. He went on to clarify that he was largely referring to the positive trade developments in the situation with China, and also the fact that Brexit risks had eased in recent weeks.

Secondly, he highlighted that it would take a material reassessment of their outlook for them to move again. He went back to the fact that they see the outlook as being one of moderate growth, strong labor markets and inflation near their 2% target.

The final thing I'd highlight from the press conference is he did spend a fair amount of time discussing the balance sheet and their recent actions regarding the repo market.

Just to clarify for everyone, what the Fed is going to do from here on out is they're going to purchase \$60 billion of Treasury bills per month into the second quarter of next year. What they would like to do is restore reserve balances to around \$1.5 trillion, which is where they were around September.

He went out of his way to highlight this is not QE [quantitative easing], this is more of a technical situation in the repo market that they need to work to fix. He also talked about how they'll continue to offer repo facilities into January of next year.

I think this is largely to dispel any fears that we'll have a repeat of December of 2018.

CB: *That's a great point. The market's reaction was, on balance, positive, I would say. We have moderately higher stock prices post press conference. The Treasury yield curve did flatten slightly with the long-end outperforming, particularly in 30-year bonds, and from our perspective we would attribute that more to inflation expectations being measured—whether it's by the TIPS market or inflation survey data—and that this continued miss to the low side on inflation is weighing on the market's mind. But all else aside, [it was] pretty much a down-the-middle day from the Fed, I would think.*

We know that the Fed will meet again in six weeks, in December. From our perspective at this point, without some significant changes to the data directionally, we would expect that to be a non-event. Nevertheless, we'll check in again after that meeting and follow up with you all.

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