

Fed leaves the door open to future cuts but rules out a lengthy series of rate cuts

## Key Highlights:

- ◆ Fed cuts target interest rate 25 basis points to 2.00-2.25%, citing implications of global developments for the U.S. economic outlook and muted inflation pressures.
- ◆ Fed vote in favor of policy was 8:2.
- ◆ Fed says it will conclude reduction of its aggregate security holdings in August, two months earlier than previously indicated.
- ◆ Fed says rate cut supports committee's view that sustained economic expansion, strong labor market and near-target inflation are the most likely outcomes but uncertainties remain.

## Fed cuts rate by a quarter point on economic slowdown worry:

The Federal Open Market Committee lowered its benchmark rate by a quarter point to a range of 2% to 2.25% on worry about a possible slowdown in the U.S. economy. The move marked the first reduction in the funds rate since December 16, 2008. The Fed statement released recycled language from its June meeting describing business fixed investment as "soft" and said inflationary pressures "remain low." The committee called the current state of growth "moderate" and the labor market "strong," but decided to loosen policy anyway. Fed vote in favor of policy was 8:2.

## Fed also leaves the door open to future cuts but rules out multiple:

The Central Bank leaves the door open to future cuts, by saying it will "act as appropriate to sustain the expansion" but the Fed Chairman Powell made it clear that this move was not a start of lengthy series of rate cuts. Powell said that there could be more cuts, but that the Central Bank was not intending to embark on a long cycle of lowering interest rates. He then characterized the rate cut as a "mid-cycle adjustment."

## Fed also ends its balance sheet reduction two months earlier than planned:

The Fed also said it was ending the program to shrink its balance sheet, known as quantitative tightening, on August 01, 2019. That is two months earlier than planned. Now it will be important for the Fed to soon start buying Treasuries in the open market as mortgage-related assets roll off its balance sheet to provide some stability to the market.

## Outlook:

This interest rate cut was already priced in. The Fed Chairman Powell in his speech is not shutting the door for further cut but he is also not hinting that there is another one coming in September. However, it would be rare for the Fed to go with "one and done". We are still expecting, one more cut (quarter point) this year and one in early 2020.

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