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Key Highlights:

- ◆ The U.S. Fed announces cut its benchmark overnight lending rate to a target range of 1.75% to 2%.
- ◆ Median Fed policymaker projection is for no further cuts in 2019 but seven of 17 policymakers saw one more cut as appropriate.
- ◆ The committee again cites “the implications of global developments for the economic outlook as well as muted inflation pressures” as the primary rationale for this cut.

Fed cuts rate by a quarter point:

The Federal Open Market Committee (FOMC) cut interest rates by a quarter of a percentage point for the second time this year to sustain economic expansion. Following its two-day policy meeting, the Central Bank announced that it would take down its benchmark overnight lending rate to a target range of 1.75% to 2%. In addition to the reduction, the Fed cut the interest it pays on excess reserves by 30 basis points, greater than the funds rate cut, amid a breakdown this week in the overnight repurchase lending market. The move was aimed at keeping the funds rate within its target range; the interest on excessive reserves (IOER) historically has acted as a guardrail for the funds rate, which traded 5 basis points above the target.

Fed members split on further rate cut:

According to the Fed’s “dot plot” of individual expectations, five members thought the FOMC should have held its previous range of 2% to 2.25%, five approved of the 25 basis point cut but keeping rates there through the rest of the year, and seven favored at least one more cut this year.

Fed sees slightly higher economic growth and jobless rate in 2019:

The Fed now sees GDP growth at 2.2% in 2019, which is actually an increase over the 2.1% rate that it projected at the June meeting. The Central Bank also sees GDP growth of 2% and 1.9% in 2020 and 2021, respectively. The median projection for the year-end 2019 unemployment rate is 3.7%, which the Fed also projects for 2020 before a slight uptick in 2021. The 2019 projection is a slight increase from 3.6% last time projections were released. The Fed's inflation forecast remains exactly the same as it was in June. For 2019, inflation is seen at 1.5% (core inflation of 1.8%), rising to 1.9% and 2% over the next two years.

Outlook: This 25-basis-point rate cut and not much changed in the statement or in the economic projections was in expected line. However, the divided nature of the FOMC seems to be causing a concern.

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