

**Rabobank**

Not So Fast

Comment on FOMC Minutes January 2024**RaboResearch**Global Economics &
Markets
mr.rabobank.com[Philip Marey](#)Senior US Strategist
+31 6 138 929 58

Summary

- The minutes of the January 30-31 meeting of the FOMC showed that most participants noted the risks of moving too quickly to ease the stance of monetary policy. Some participants noted the risk that progress toward price stability could stall.
- We continue to pencil in the first rate cut in June. Once started, we expect the Fed to continue with one cut of 25 bps per quarter. However, if progress on inflation is indeed stalling, we could see the Fed remaining on hold for longer.

Introduction

The minutes of the January 30-31 meeting of the FOMC confirmed that the Committee is in no hurry to cut rates. [At that meeting](#), the FOMC unanimously kept the target range for the federal funds rate unchanged at 5.25-5.50%. The FOMC statement opened the door to rate cuts, but at the same indicated that they were not imminent. During the Q&A at the post-meeting press conference, Powell finally pushed back against market expectations of an early rate cut. Echoing the need for greater confidence that inflation is moving sustainably toward 2% in the FOMC statement, Powell said that he did not think it is likely to achieve confidence by March to cut rates. The economic data released since the January 30-31 meeting are not likely to have strengthened the Committee's confidence that inflation is moving sustainably toward 2%.

Economic outlook

Regarding the economic outlook, the minutes showed that participants judged that the current stance of monetary policy was restrictive and would continue to put downward pressure on economic activity and inflation. Many participants indicated that they expected core nonhousing services inflation to gradually decline further as the labor market continued to move into better balance and wage growth moderated further. Various participants noted that housing services inflation was likely to fall further as the deceleration in rents on new leases continued to pass through. However, participants noted that the economic outlook was uncertain and that they remained highly attentive to inflation risks. Participants observed that that would be carefully assessing incoming data in judging whether inflation was moving down sustainably toward 2%.

Monetary policy

Regarding monetary policy, participants judged that the policy rate was likely at its peak for this tightening cycle. Powell already said this in his prepared statement at the post-meeting press conference. Participants generally noted that they did not expect it would be appropriate to reduce the target range for the federal funds rate until they had greater confidence that inflation was moving sustainably toward 2%. The incorporation of this phrase in the formal statement on January 31 had already reduced the probability of a March rate cut. Some participants noted the risk that progress toward price stability could stall, particularly if aggregate demand strengthened or supply-side healing slowed more than expected. Most participants noted the risks of moving

too quickly to ease the stance of monetary policy and emphasized the importance of carefully assessing incoming data in judging whether inflation is moving down sustainably to 2%.

Finally, many participants suggested that it would be appropriate to begin in depth discussion of balance sheet issues at the next meeting to guide an eventual decision to slow the pace of runoff. Powell already announced this at the post-meeting press conference on January 31. Note that at present, the monthly pace is \$60 billion in Treasury securities and \$35 billion in agency debt and agency MBS. A few participants noted that the process of balance sheet runoff could continue for some time even after the Committee begins to reduce the target range for the federal funds rate. Monetary policy tightening and loosening at the same time, why not? Not long ago the FOMC considered this inconsistent. But who needs time-consistency these days?

Table 1: Median projections of FOMC participants (December 2023)

| <i>Variable</i> | <i>2023</i> | <i>2024</i> | <i>2025</i> | <i>2026</i> | <i>Longer run</i> |
|--------------------|--------------|--------------|--------------|--------------|-------------------|
| GDP growth | 2.6 (2.1) | 1.4 (1.5) | 1.8 (1.8) | 1.9 (1.8) | 1.8 (1.8) |
| Unemployment | 3.8 (3.8) | 4.1 (4.1) | 4.1 (4.1) | 4.1 (4.0) | 4.1 (4.0) |
| PCE inflation | 2.8 (3.3) | 2.4 (2.5) | 2.1 (2.2) | 2.0 | 2.0 (2.0) |
| Core PCE inflation | 3.2 (3.7) | 2.4 (2.6) | 2.2 (2.3) | 2.0 (2.0) | |
| Federal funds rate | 5.4 (5.6) | 4.6 (5.1) | 3.6 (3.9) | 2.9 (2.9) | 2.5 (2.5) |

Source: FOMC, December 13, 2023 (September 20, 2023)

Conclusion

Markets have reduced their expectations for Fed rate cuts in 2024 from about 6 at the start of the year to 3-4 today. We have been forecasting 3 rate cuts for 2024 – starting in June - since late 2022, long before the FOMC put 3 rate cuts in the dot plot (December 2023). Our reasoning for sticking to that view has been (see for example our [September 2023 FOMC Post-Meeting Comment](#)) that a smooth return of inflation to its 2% target was doubtful, because core services ex housing inflation remained a wild card, closely related to nominal wage growth, and that any negative supply or positive demand shock could set off another spell of inflation. Recent data serve as a reminder that patience is required to get inflation all the way back to 2% and make sure it stays there. So no early rate cuts, which markets already expected to occur in 2023. In contrast, we said that the Fed was not going to cut in 2023. The coming months should reveal whether the recent inflation stickiness is a one-off, a seasonality problem, or has a more persistent character. This supports the FOMC’s caution that taking the time to look at a longer set of data is warranted. Our baseline forecast remains three rate cuts in 2024 (see table 2).

However, we cannot rule out that progress on inflation is stalling. Nominal wage growth is still catching up and outpacing inflation and in the current geopolitical climate there is a constant threat of additional supply shocks. If keeping policy rates at current levels for longer is not going to do the job, the FOMC might even have to think about hiking again. However, they may prefer

to delay that decision until after the November elections. Testing the limits of Fed independence may be hazardous in the current political climate. Before they know it, they will be buying green and blue bonds!

Table 2: Rabobank forecasts of target range for federal funds rate in 2024

| <i>FOMC meeting</i> | <i>Size of rate change (bps)</i> | <i>Target range (%)</i> |
|---------------------|----------------------------------|-------------------------|
| Dec 12-13, 2023 | 0 | 5.25-5.50 |
| Jan 30-31, 2024 | 0 | 5.25-5.50 |
| March 19-20 | 0 | 5.25-5.50 |
| April 30-May 1 | 0 | 5.25-5.50 |
| June 11-2 | -25 | 5.00-5.25 |
| July 30-31 | 0 | 5.00-5.25 |
| September 17-18 | -25 | 4.75-5.00 |
| November 6-7 | 0 | 4.75-5.00 |
| December 17-18 | -25 | 4.50-4.75 |

Source: Rabobank

RaboResearch

Global Economics & Markets
mr.rabobank.com

Global Head

Jan Lambregts

+44 20 7664 9669
Jan.Lambregts@Rabobank.com

Macro Strategy

Global

Michael Every

Senior Macro Strategist
Michael.Every@Rabobank.com

Europe

Elwin de Groot

Head Macro Strategy
Eurozone, ECB
+31 30 712 1322
Elwin.de.Groot@Rabobank.com

Bas van Geffen

Senior Macro Strategist
ECB, Eurozone
+31 30 712 1046
Bas.van.Geffen@Rabobank.com

Stefan Koopman

Senior Macro Strategist
UK, Eurozone
+31 30 712 1328
Stefan.Koopman@Rabobank.com

Erik-Jan van Harn

Macro Strategist
Germany, France
+31 6 300 20 936
Erik-Jan.van.Harn@Rabobank.nl

Maartje Wijffelaars

Senior Economist
Italy, Spain, Portugal, Greece
+31 88 721 8329
Maartje.Wijffelaars@Rabobank.nl

Wim Boonstra

Senior Advisor

+31 30 216 2666
Wim.Boonstra@Rabobank.nl

Americas

Philip Marey

Senior Macro Strategist
United States, Fed
+31 30 712 1437
Philip.Marey@Rabobank.com

Christian Lawrence

Senior Cross-Asset Strategist
Canada, Mexico
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Mauricio Une

Senior Macro Strategist
Brazil, Chile, Peru
+55 11 5503 7347
Mauricio.Une@Rabobank.com

Renan Alves

Macro Strategist
Brazil
+55 11 5503 7288
Renan.Alves@Rabobank.com

Asia, Australia & New Zealand

Teeuwe Mevissen

Senior Macro Strategist
China
+31 30 712 1509
Teeuwe.Mevissen@Rabobank.com

Benjamin Picton

Senior Macro Strategist
Australia, New Zealand
+61 2 8115 3123
Benjamin.Picton@Rabobank.com

FX Strategy

Jane Foley

Head FX Strategy
G10 FX
+44 20 7809 4776
Jane.Foley@Rabobank.com

Rates Strategy

Richard McGuire

Head Rates Strategy
+44 20 7664 9730
Richard.McGuire@Rabobank.com

Lyn Graham-Taylor

Senior Rates Strategist
+44 20 7664 9732
Lyn.Graham-Taylor@Rabobank.com

Credit Strategy & Regulation

Matt Cairns

Head Credit Strategy & Regulation
Covered Bonds, SSAs
+44 20 7664 9502
Matt.Cairns@Rabobank.com

Bas van Zanden

Senior Analyst
Pension funds, Regulation
+31 30 712 1869
Bas.van.Zanden@Rabobank.com

Paul van der Westhuizen

Senior Analyst
Financials
+31 88 721 7374
Paul.van.der.Westhuizen@Rabobank.com

Cas Bonsema

Senior Analyst
ABS, Covered Bonds
+31 6 127 66 642
Cas.Bonsema@Rabobank.com

Agri Commodity Markets

Carlos Mera

Head of ACMR
+44 20 7664 9512
Carlos.Mera@Rabobank.com

Michael Magdovitz

Senior Commodity Analyst
+44 20 7664 9969
Michael.Magdovitz@Rabobank.com

Paul Joules

Commodity Analyst
+44 20 7887 824436
Paul.Joules@Rabobank.com

Energy Markets

Joe DeLaura

Senior Energy Strategist
+1 212 916 7874
Joe.DeLaura@Rabobank.com

Client coverage

Wholesale Corporate Clients

| | | | |
|------------------|------------------------|------------------|-------------------------------|
| Martijn Sorber | Global Head | +31 30 712 3578 | Martijn.Sorber@Rabobank.com |
| Hans Deusing | Europe | +31 30 216 9045 | Hans.Deusing@Rabobank.com |
| Neil Williamson | North America | +1 212 808 6966 | Neil.Williamson@Rabobank.com |
| Adam Vanderstelt | Australia, New Zealand | +61 2 8115 3102 | Adam.Vanderstelt@rabobank.com |
| Ethan Sheng | Asia | +852 2103 2688 | Ethan.Sheng@Rabobank.com |
| Ricardo Rosa | Brazil | +55 11 5503 7150 | Ricardo.Rosa@Rabobank.com |

Financial Institutions

Short-term Interest Rates

| | | | |
|-----------------|-------------|-----------------|------------------------------|
| Marcel de Bever | Global Head | +31 30 216 9740 | Marcel.de.Bever@Rabobank.com |
|-----------------|-------------|-----------------|------------------------------|

Bonds & Interest Rate Derivatives

| | | | |
|----------------|--------------------------|-----------------|-----------------------------|
| Henk Rozendaal | Global Head Fixed Income | +31 30 216 9423 | Henk.Rozendaal@Rabobank.com |
|----------------|--------------------------|-----------------|-----------------------------|

Solutions

| | | | |
|-----------------|-------------|-----------------|------------------------------|
| Sjoerd van Peer | Global Head | +31 30 216 9072 | Sjoerd.van.Peer@Rabobank.com |
|-----------------|-------------|-----------------|------------------------------|

Relationship Management

| | | | |
|--------------------------|----------------|-----------------|--------------------------------------|
| Rogier Everwijn | Global Head | +31 30 712 2440 | Rogier.Everwijn@Rabobank.com |
| Rob Eilering | Banks | +31 30 712 2162 | Rob.Eilering@Rabobank.com |
| Petra Schuchard | Insurers | | Petra.Schuchard@Rabobank.com |
| Frank Dekkers | Asset Managers | | Frank.Dekkers@Rabobank.com |
| Javier Alvarez de Eerens | MDB | +31 30 712 1015 | Javier.Alvarez@Rabobank.com |
| Christel Kleinhaarhuis | Fintech | | Christel.Klein.Haarhuis@Rabobank.com |

Capital Markets

| | | | |
|------------------------|------------------------------------|------------------|-------------------------------------|
| Laura Bijl | Global Head | +31 88 726 3254 | Laura.Bijl@Rabobank.com |
| Christopher Hartofilis | Capital Markets USA | +1 212 808 6890 | Christopher.Hartofilis@Rabobank.com |
| Ian Baggott | Capital Markets Asia | +852 2103 2629 | Ian.Baggott@Rabobank.com |
| Willem Kröner | Global Head ECM | +31 30 712 4783 | Willem.Kroner@Rabobank.com |
| Harman Dhami | DCM Syndicate | +44 20 7664 9738 | Harman.Dhami@Rabobank.com |
| Crispijn Kooijmans | DCM FIs & SSAs | +31 30 216 9028 | Crispijn.Kooijmans@Rabobank.com |
| Bjorn Alink | DCM Securitisation & Covered Bonds | +31 30 216 9393 | Bjorn.Alink@Rabobank.com |
| Othmar ter Waarbeek | DCM Corporate Bonds | +31 30 216 9022 | Othmar.ter.Waarbeek@Rabobank.com |
| Joris Reijnders | DCM Corporate Loans | +31 30 216 9510 | Joris.Reijnders@Rabobank.com |
| Brian Percival | DCM Leveraged Finance | +44 20 7809 3156 | Brian.Percival@Rabobank.com |

Disclaimer

Non Independent Research

This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as “Rabobank” (“Rabobank”) a cooperative with excluded liability. The liability of its members is limited. Authorised by De Nederlandsche Bank in the Netherlands and regulated by the Autoriteit Financiële Markten. Rabobank London Branch (RL) is authorised by De Nederlandsche Bank, the Netherlands and the Prudential Regulation Authority, and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Further details are available on request. RL is registered in England and Wales under Company no. FC 11780 and under Branch No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that it should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions.

A summary of the methodology can be found on our [website](#)

© Rabobank London, Thames Court, One Queenhithe, London EC4V 3RL +44(0) 207 809 3000