

**Rabobank**

Not behind the curve

FOMC Post-Meeting September 2024**RaboResearch**Global Economics &
Markets
mr.rabobank.com**Philip Marey**Senior US Strategist
+31 6 138 929 58

Summary

- Today, the FOMC cut the target range for the federal funds rate by 50 bps, from 5.25-5.50% to 4.75-5.00%.
- During the press conference, Powell had trouble clearly explaining the reason for the large cut, because he did not want to admit that this 'recalibration' was needed because the FOMC had fallen behind the curve.
- Meanwhile, the large cut seemed counterintuitive to the repeated claim that the economy was strong. The recalibration argument is clashing with the message this large cut sends.
- What's more, with a 50 bps cut without compelling data or forecasts the Fed is taunting former and possibly next President Trump. This could have serious repercussions next year. The sole dissenter, Michelle Bowman, may just have improved her chance of becoming the next Fed Chair.
- Looking ahead, if this was truly a recalibration and 50 has not become the new 25, we still expect 25 bps at each of the three upcoming scheduled meetings in November, December and January.
- What happens after January will to a large extent depend on the economic policies of the next administration. A Trump victory would likely lead to a universal tariff and a rebound in inflation that should stop the Fed's cutting cycle in its tracks. A Harris victory would likely be less inflationary and give scope for additional rate cuts in 2025.

Introduction

Today, the FOMC cut the target range for the federal funds rate by 50 bps, from 5.25-5.50% to 4.75-5.00%. Almost an hour prior to the decision, markets priced in a 58% probability of 50 bps and a 42% probability of 25 bps. Based on the economic data, we expected only 25 bps at this meeting. In the past, the Fed only cut 50 bps at the start of a cutting cycle in case of a severe deterioration in the economy or markets, such as the dot com bubble and the Global Financial Crisis. However, the continued lack of guidance on the size of today's rate cut suggested that it was a close call. Hence the title *Casino* of our [preview](#). During the press conference, Powell had trouble clearly explaining the reason for the large cut, because he did not want to admit that this 'recalibration' was needed because the FOMC had fallen behind the curve. Meanwhile, the large cut seemed counterintuitive to the repeated claim that the economy was strong.

Statement

According to the FOMC statement, job gains have "slowed" (instead of "moderated"). The statement repeated that inflation has made further progress toward the Committee's 2 percent objective but added: "but remains somewhat elevated." The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance. In light of the progress on inflation and the balance of risks, the Committee decided to lower the target range for the federal

funds rate by 1/2 percentage point to 4-3/4 to 5 percent. The Committee is strongly committed to supporting maximum employment (this was added) and returning inflation to its 2 percent objective. Voting against this action was Michelle W. Bowman, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.

Press conference

If there was a strong case for a 50 bps cut, Powell did not make it at his press conference. He repeatedly stressed that the US economy was strong, but we should see the strong move as a commitment to keep the economy strong.

- Doctor: "We'll give you extra strong medication."
- Patient: "Is my condition that bad?"
- Doctor: "No, you're healthy, but we're committed to keep you healthy."

In the end, it looks like Powell felt the level of the policy rate was out of sync with the progress on inflation and the rise in the unemployment rate. After all, he used the word 'recalibration' several times. This was also evident in the FOMC projections now showing a 100 bps reduction compared to the pre-meeting level of the target range, rather than the 25 bps in the June projections. Although Powell denied that the Fed had fallen behind the curve, this is exactly what recalibration means. However, the latter obscures the former and Powell did not want to admit that they should have cut 25 bps in July. It got really funny when he said that the FOMC had been patient in waiting and this allowed them to make a strong move. Yes, if you get behind the curve, you have to make a big leap forward to catch up!

Still, **the recalibration argument is clashing with the message this large cut sends**. When asked during the Q&A what his message to the US consumer is, Powell said that the US economy is in a good place and our decision is to keep it there. Really? A 50 bps cut as a message that the economy is strong? So if they cut by 75 bps the economy is booming? This sounds like something out of George Orwell's *1984*:

- WAR IS PEACE
- FREEDOM IS SLAVERY
- IGNORANCE IS STRENGTH.

Understandably, a reporter asked whether the 50 bps cut meant that he was more concerned about the labor market than about inflation. However, Powell denied this and said that the risks are roughly balanced. This exchange underlined the problem.

Projections

In his prepared speech at the post-meeting press conference, Fed Chair Powell said that lower inflation and higher unemployment had led to lower fed funds rate projections. With the unemployment rate currently at 4.2% (August), the FOMC expects it to rise to 4.4% in the final quarter of this year and remain there through 2025, before declining slowly to its longer run value of 4.2%. So according to the FOMC, unemployment is now at its longer run value and will only rise 0.2 ppt above it. This does seem a bit optimistic. Meanwhile, inflation projections for 2024 and 2025 were revised downward, and before the end of 2026 inflation will be at its 2.0% target. The GDP growth projection for 2024 was revised downward slightly, but the remainder of the growth trajectory remained unchanged. The biggest changes were in the rate projections. The federal funds rate for the end of 2024 was revised downward from 5.1% to 4.4%. This is where Powell's recalibration is coming from. To get there in three scheduled meetings, i.e. 100 bps below the pre-meeting level of 5.4%, at least one rate cut of 50 bps was needed and Powell wanted it to be the first. The pace is likely to slow down in 2025 with 100 bps for the whole year, followed by 50

bps in 2026. The FOMC expects to end at 2.9% before the end of 2026 and no further cuts in 2027. This is supposed to be the longer run level of the fed funds rate.

Table 1: Median projections of FOMC participants, September 2024

<i>Variable</i>	<i>2024</i>	<i>2025</i>	<i>2026</i>	<i>2027</i>	<i>Longer run</i>
GDP growth	2.0 (2.1)	2.0 (2.0)	2.0 (2.0)	2.0	1.8 (1.8)
Unemployment	4.4 (4.0)	4.4 (4.2)	4.3 (4.1)	4.2	4.2 (4.2)
PCE inflation	2.3 (2.6)	2.1 (2.3)	2.0	2.0	2.0 (2.0)
Core PCE inflation	2.6 (2.8)	2.2 (2.3)	2.0 (2.0)	2.0	
Federal funds rate	4.4 (5.1)	3.4 (4.1)	2.9 (3.1)	2.9	2.9 (2.8)

Source: FOMC, September 18, 2024 (June 12, 2024)

Conclusion

Powell had a clear incentive to deliver a 50 bps cut before Election Day, because Trump has already made clear that he would not reappoint him as Fed Chair. In fact, he may decide to [remove](#) him prematurely. So Powell's only chance of another term is by pleasing Kamala Harris and her fellow Democrats in the Senate. In fact, on Monday three Democratic senators – Elizabeth Warren, Sheldon Whitehouse and John Hickenlooper – sent a letter to the Fed urging a 75 bps cut. However, the other voters in the FOMC should have seen the greater political risk to the institution from providing a jumbo cut without compelling support from the data or the forecasts just before the election. There was only one dissenter.

Although Powell's message was a mess, our argument for 50 bps would be the deterioration in the labor market that is likely to end up in a mild recession. However, by cutting 50 bps when you think the economy is strong, you may be wasting valuable ammunition if your assessment of the economy is right. What if there is a sudden deterioration in the economy or the markets, do we then get a 75 bps cut? Starting with 50 bps without compelling data or forecasts means that you are blunting your interest rate tool. Meanwhile, with a 50 bps cut the Fed is taunting former and possibly next President Trump. This could have serious repercussions next year. The sole dissenter, Michelle Bowman, may just have improved her chance of becoming the next Fed Chair.

Looking ahead, if this was truly a recalibration and 50 has not become the new 25, we still expect 25 bps at each of the three upcoming scheduled meetings in November, December and January. As we have said before, what happens after January will to a large extent depend on the economic policies of the next administration. A Trump victory would likely lead to a universal tariff and a rebound in inflation that should stop the Fed's cutting cycle in its tracks. A Harris victory would likely be less inflationary and give scope for additional rate cuts in 2025. Our forecasts (Table 2) are still based on the assumption of a Trump victory with a universal tariff, but no termination of the Fed's independence. However, if Harris is going to show a sustained lead in the

Electoral College, we may have to alter our assumption about the outcome of the presidential election in November and probably add a number of rate cuts in 2025 and beyond.

Table 2: Rabobank forecasts of target range for federal funds rate in 2024 and 2025

<i>FOMC meeting</i>	<i>Size of rate change (bps)</i>	<i>Target range (%)</i>
November 6-7	-25	4.50-4.75
December 17-18, 2024	-25	4.25-4.50
January 28-29, 2025	-25	4.00-4.25
March 18-19	0	4.00-4.25
May 6-7	0	4.00-4.25
June 17-18	0	4.00-4.25
July 29-30	0	4.00-4.25
September 16-17	0	4.00-4.25
October 28-29	0	4.00-4.25
December 9-10	0	4.00-4.25

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