

Article | 30 October 2019

UNITED STATES

Fed prefers to pause, but we doubt they will

The Federal Reserve has cut interest rates by 25bp at the third consecutive FOMC meeting. The market anticipates a pause in December, but a slowing economy means we think there are more rate cuts are to come



Fed delivers another 25bp

As widely expected the Federal Reserve has cut the target rate 25bp to 1.5-1.75% and once again the decision was not unanimous. Esther George and Eric Rosengren, who believe the economy is performing well and are worried about “overheating” in some sectors, opposed today’s move. In September James Bullard had voted for a 50bp move, but this time he went with the consensus.

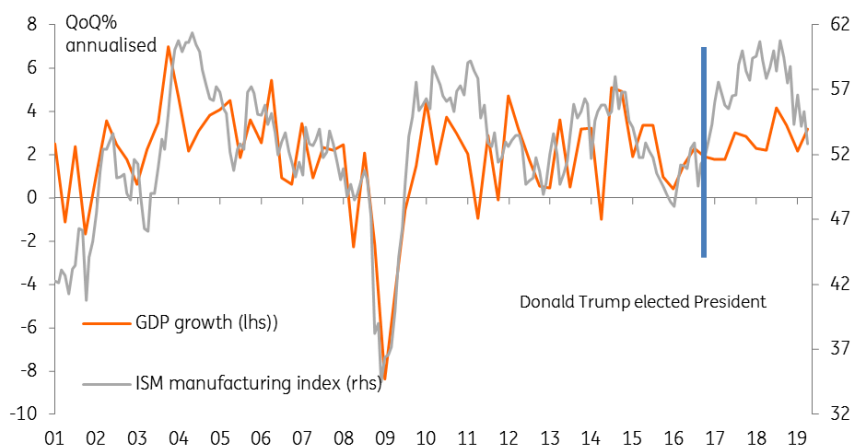
The key change in the accompanying statement is that the Fed has dropped the sentence saying that the FOMC “will continue to monitor the implications of incoming information for the economic outlook and will *act as appropriate to sustain the expansion*” (our emphasis). Instead we have a sentence saying the FOMC “will continue to monitor the implications of incoming information for the economic outlook *as it assesses the appropriate path of the target range for the federal funds rate*” (our emphasis). This suggests that the Fed wants to

take stock after three consecutive rate cuts in July, September and October. The key question is will the data allow them to? We have strong doubts.

Markets expecting a December pause

In terms of where we go from here, financial markets are anticipating a pause from the Federal Reserve. The fact that equities are at all-time highs and there have been positive trade discussions between the US and China seem to have allayed recession fears. Implied probabilities based on futures contracts are only fully pricing one further rate cut in total with roughly a one in four chance that it comes at the December FOMC meeting.

ISM surveys point to a more rapid deceleration



Source: Macrobond

But we think the Fed has more work to do

However, the economic data is not as positive with business surveys, such as the ISM series in the chart above, suggesting the US economic slowdown is intensifying. Friday's jobs report is also likely to underline the deceleration story even with the acknowledgment of a temporary distortion due to the GM-related strike. Inflation expectations are also very low and wage growth has moderated recently. With the European and Asia story showing little sign of a rebound and the dollar remaining firm we are, for now, sticking with our view that the Fed will take out additional "insurance" against recession at the December meeting with a further rate cut possible in 1Q20.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.