Powell confirms a September Fed rate cut

A September interest rate cut is coming with Fed Chair Powell telling us that "the time has come for policy to adjust. The direction of travel is clear." The market favours it being a 25bp move, but the 6 September jobs report will determine what happens. They don't want further weakness so another rise in unemployment to 4.4% or 4.5% could trigger a 50bp move

Fed Chair Powell announced today at the Jackson Hole Symposium that "the time has come for policy to adjust".

There are some strong comments coming through from Chair Powell at his Jackson Hole speech. We get the usual bits and pieces about inflation looking better and the focus is now much more on jobs, but he is as categorical as he can be with the statement "The time has come for policy to adjust. The direction of travel is clear". This follows on from the minutes to the July FOMC meeting, released on Wednesday, that said “the vast majority [of FOMC members] observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting”.

There is no discussion of 25bp or 50bp at the September FOMC meeting – merely that "the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks". Nonetheless, he does allude to the fact that they could cut rates a lot should conditions warrant it – "The current level of our policy rate gives us ample room to respond to any risks we may face, including the risk of unwelcome further weakening in labor market conditions."

There is currently around 33bp of cuts priced for the 18 September FOMC meeting and 100bp by year-end with a further 125bp of cuts next year. That looks fair given the current situation. between now and the 18 September decision we have the core PCE deflator (30 August), which the market is confident on a 0.2% month-on-month print given the inputs from CPI and PPI. Then it is the jobs report on 6 September and that is the critical one. Note Powell today stated that “we don’t seek or welcome further cooling in labour market conditions”.

If we get a sub 100k on payrolls and the unemployment rate ticking up to 4.4% or even 4.5% then 50bp looks more likely. If payrolls comes in around the 150k mark and unemployment rate stays at 4.3% or dips to 4.2% we can safely say it will be a 25bp. Then on 11 September it is core CPI. 0.2% MoM or lower looks likely there – we are currently leaning in the direction of a possible 0.1% on the potential for the jump in July primary rents to reverse.

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