FED WATCH: IT TAKES TWO

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The Federal Reserve (Fed) is now two for two in terms of rate cuts. As was widely expected, the FOMC voted to reduce the Federal Funds target range by another quarter point, or 25 basis points (bps), following their September policy meeting. With this move now "in the books," the new range for Fed Funds is 1 ¾–2%, 50 bps below where it was as recently as July. In other words, the Fed has now not only reversed its December *rate hike*, but it has now moved further into "insurance" territory.

Unlike the first rate cut about six weeks ago, this latest move did not involve as much speculation regarding the potential for a 50 bps move. While some Fed members had publicly speculated that they could support such a move, there was also a "no rate cut" camp, so the 25-bps outcome seemed like a nice compromise. In fact, market expectations heading into the September convocation were tilted to just under a 100% probability for only a quarter-point move. In addition, due to some recent good news on the data front (retail sales) and trade headlines, market sentiment had shifted to the point that the residual percentage who had been looking for a half-point cut got moved into "no rate cut" territory.

Besides the usual policy statement, this meeting also included Fed members' projections for Fed Funds (blue dots) for the remainder of 2019 and 2020. Considering how the FOMC did a "180" from its rate hike outlook earlier this year, let's keep our focus on 2019 for now. Once again, the policymakers kept the door open for another rate cut by sticking to this script: The Fed "will act as appropriate to sustain the expansion." The policymakers' underlying baseline continues to be one geared toward a favorable economic outlook, while also acknowledging risks and/or uncertainties brought about from trade and slowing global growth.

Conclusion

Based upon the messaging surrounding the September FOMC meeting, an additional cut at the December gathering is possible, but the question should be more like: Is it probable? The last time the Fed appeared to be in "insurance mode" was the 1998 easing episode. At that time, the policymakers cut Fed Funds three times at successive FOMC meetings for a total of 75 bps and then moved to the sidelines. This type of blueprint, if repeated, would put a December rate cut on the table. However, if upcoming economic data does not deteriorate, given the somewhat "fractured" state of the voting members, I wouldn't be surprised if the Fed took the rest of the year off.

Unless otherwise stated, all data sourced is Bloomberg, as of September 12, 2019.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Cut : A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institution.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Fed funds target range : the interest rate band the Federal Open Market Committee decides to implement for the federal funds rate.

Basis point : 1/100th of 1 percent.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Blue dots : the midpoint target range/level of the FOMC participants' projections for the future Federal Funds Rate.

Monetary easing policies : Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.