

Global

8 November 2024

FOMC outlook post elections: rate cuts still on the cards

- FOMC decided to lower the target range for the Fed funds rate by 25bps at the 7 November FOMC meeting, to 4.50-4.75%. The decision was unanimous. USTs rallied during NY session on the day upon the FOMC rate cut decision, as Powell commented that the election will have no near-term effect on monetary policy decisions. The rhetoric was more dovish than market would have expected given the US election outcome.
- The timeline of any potential tariffs suggests that the impact on inflation, if any, may only be felt from Q3-2025 (or later) onwards. It remains more likely than not that there will be another 25bp Fed Funds rate cut at the December FOMC meeting, in our view. We also hold onto our expectation for two 25bp cuts in Q1-2025, i.e. at the January and March meetings. Thereafter, the pace of rate cuts is likely to be slower which we have already expected. But in view of potential inflation impact starting to emerge in the latter part of 2025, we remove one 25bp rate cut that we previously expected for Q4-2025. To sum up, **we now expect one 25bp Fed funds rate cut each in December, January, March, Q2-2025 and Q3-2025, adding up to 100bps of cuts in 2025.** This expected profile will bring the Fed funds rate target range to 3.25-3.50% at end 2025. This will be consistent with the stance of bringing rates gradually down over time to a more neutral level.
- FOMC statement.** The November FOMC statement was similar to the September FOMC statement, with some differences as they described the labour market because of what had happened. The statement removed the phrase that the Committee “has gained greater confidence” that inflation is moving sustainably towards 2% - we do not interpret it as reflecting a change in the inflation outlook. The “has gained greater confidence” was in the September FOMC statement as it marked the start of the easing cycle.

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Rates Forecast

USD Interest Rates	Q424	Q125	Q225	Q325	Q425
FFTR upper	4.50	4.00	3.75	3.50	3.50
SOFR	4.32	3.82	3.57	3.34	3.34
3M SOFR OIS	4.25	3.80	3.65	3.45	3.45

Source: OCBC Research
 Forecasts made on 8 November 2024

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