



Multi-Assets

United States

During the FOMC meeting last night, the central bank held its benchmark federal-funds rate steady in a range between 5.25% and 5.5%, the highest level in more than two decades.

In the press meeting session, Chair Powell stated that “It’s a highly consequential decision to start the process” of lowering interest rates “and we want to get that right,” signaling that the rates may not be raised higher but will be kept longer. He also reiterated that more “real” evidence is needed, and the Fed will not consider any cuts until the governors are able to observe the continuation of good economic and inflation data.

Regarding the negative views on the economy, it was the first time for him not to mention the crisis in banking industry and the stability of banking system. It seems like roughly a year past the bankruptcy of SVB, several rounds of stress tests for commercial banks allow the Fed to regain its confidence in the banking system.

Apart from that, 2024 is absolutely an election-dominating year and most importantly, we have the presidential election in US at the end of the year. The exact timing for cuts has already been a plight for Fed governors and now they even need to deal with political pressure and non-economic factors. Sen. Sherrod Brown, the chairman of the Senate Banking Committee, has urged Powell to lower interest rates soon in an effort to make housing more affordable, paving ways for better economic conditions during the election period. However, as always, Fed officials insist politics won’t influence their decisions as Powell says yesterday, “This year is going to be a highly consequential year for the Fed and for monetary policy, and we’re, all of us, very buckled down and focused on doing our jobs,”.

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Our Views on FX & Rates:

The most remarkable part for markets was Powell’s unprovoked statement that he didn’t think that it is necessary to cut in March. That being said, the statement and press conference appeared to preserve flexibility, making Powell’s apparent willingness to sell that option somewhat surprising. Ultimately, it underscores the central idea that the case for a material, front-end-led rally in US rates lies heavily with growth weakness.

As long as the greenback holds carry advantages, we don’t see the chance for it to weaken significantly since its economy is still outperforming most of the developed market. However, we do think the turnaround of FOMC could trigger a USD sell-off with abundant carry position unwind, this is especially true nowadays given that the market now acts more with expectation instead of reality.

The US rates may steepen a bit with intact economic growth momentum, and the fed fund future reprice from 150bps to 125bps cut for 2024. From our standpoint, the price has well-reflected the fundamentals now along with a better growth/inflation backdrop. That said, mindfulness of the somewhat careful Fed reaction function leaves us still inclined to express this via less carry-intensive steepening exposure like 5s10s.

Fig. 1: Latest probabilities of FOMC rate moves

MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024				0.0%	0.0%	0.0%	0.0%	35.5%	64.5%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	31.2%	61.0%	7.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	2.8%	33.9%	56.2%	7.1%	0.0%
7/31/2024	0.0%	0.0%	0.0%	2.6%	32.1%	54.9%	10.0%	0.4%	0.0%
9/18/2024	0.0%	0.0%	2.6%	31.5%	54.4%	10.9%	0.6%	0.0%	0.0%
11/7/2024	0.0%	1.6%	20.5%	45.7%	27.4%	4.5%	0.2%	0.0%	0.0%
12/18/2024	1.3%	17.5%	41.7%	30.3%	8.2%	0.9%	0.0%	0.0%	0.0%

Source: CME, CUIRS Investment Research

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