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Flash Macro Update (05/01/2019)

Patience continues to be the name of the game in the US monetary policy. FED's FOMC meeting ended with expected messages that did not have a material impact on financial markets today. According to the short statement of the FOMC meeting, FED decided on keeping its benchmark funds rate unchanged in a range of 2.25% to 2.50% as expected. Since that decision was universally expected, it did not have an impact on financial markets. The committee repeated language from its previous meeting, saying it will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate. In other words, wait-and-see approach of FED will persist.

When we look at the short statement of the meeting, we see that FOMC members slightly upgraded their views on economic outlook highlighting the strong labor market and rising economic activity. It is crystal clear that better than expected first quarter GDP growth played an important role in this view. Since dot plot and balance sheet runoff were clarified at the previous meeting, market players' focus was on the rates and monetary policy stance of the FED. Apparently, nothing has changed compared to the previous meeting.

On the inflation front, FED officials naturally pointed out that core CPI inflation fell last month and runs closer to 1.5% now instead of 2.0%. We think that the meeting's most important part was the emphasis on the decline in core CPI inflation, as there are some expectations in the market that FED will cut its rates in the remainder of the year. Although we think that it is premature for the FED to ease its monetary policy, further decline in inflation might trigger a rate cut later in the year. Moreover, 1Q19 GDP growth that was 3.2% might be revised down and probably we will have a relatively slower 2Q19 (suggested by the high frequency data) that could also encourage FED to cut its rates. For instance, today the April ISM data in the US was not encouraging. But again, it is still too early to discuss that. It is worth noting that the FED's next FOMC meeting will be held on June 18-19.

After the FOMC decision, FED Governor Powell held a press conference. The messages of the conference were not that different compared to the FOMC statement, but there was one remark at the conference, which increased volatility in financial markets. Powell stated that the decline in inflation will be transitory and they believe that inflation will move back to around 2% by year-end. That comment trimmed rate cut expectations in the market and financial markets reacted to the 'hawkish' comment by Powell.

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