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Flash Macro Update (12/11/2019)

As universally expected, the FED remained on hold at the last FOMC meeting of the year. In other words, FOMC did not touch the interest rate and FED's interest rate remained unchanged at 1.50-1.75%. Since the beginning of the year the FED has cut its target interest rate by 75bps and called all of them mid-cycle correction of US monetary policy. But now, it seems that there will not be a rate hike again in the short-term.

In its statement, FED's language on economy assessment did not change at all. References to strong employment, high household spending, weak investment, overall satisfactory growth and muted inflation were pretty much the same compared to the previous meeting. Unless there is an external shock or a major development on the trade talk front, the FED will probably not act in the short term. In fact, the FED's long-term forecasts also suggest that majority of FOMC members expect the FED to be on hold at least in the next 12 months. In other words, new economic projections showed a solid majority of 13 of 17 FED policymakers foresee no change in interest rates until at least 2021. The other four saw only one rate hike next year.

FED decision was taken unanimously, and we did not observe a major impact on financial markets after the decision. FED thinks that the economy keeps on growing by around 2% and there is no major inflation threat. The Bank actually expects annual GDP growth continue to be around 2 percentish in 2020, while annual core inflation will continue to hover around 2%. Unemployment rate is also expected to fluctuate around 3.5%, which is still the lowest unemployment rate in the last 50 years.

After the FOMC decision, FED Governor Powell held a press conference as usual. Most striking moment of the press conference, which captured most of the attention, was that the conversation about why inflation is not moving up when US economy keeps on growing and unemployment rate remaining at around 3.5%. Powell talked about the difficulty of moving inflation back to 2% target. However, he also mentioned that this is a good thing for US economy. Overall, financial markets' main takeaway from the meeting and press conference was that FED will stay put in the short-term unless an unexpected event takes place which affects US economy.

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