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Flash Macro Update (09/18/2019)

Markets got what they wanted from FED again in the short-term, but they were not happy at all since they left a divided FED behind! FED's FOMC meeting ended and as partially expected FED has cut its interest rate by 25bps, although the first 25 bps rate cut was called a mid-cycle adjustment signalling a single cut rather than an easing cycle. According to the short statement of the FOMC meeting, FED decided on delivering another 25 bps cut bringing its interest rate range to 1.75% to 2.00%.

In its statement, FED's language on economy assessment did not change much again. 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. One and only visible addition was exports, which really weakened recently but not because of monetary policy obviously.

Trade war between US and China, slowing down European economies and probably Brexit fears affected US exports negatively. In other words, domestic factors including the state of economic activity was not confirming a rate cut again, but FED clearly emphasized that it has cut its interest rate today because of muted inflation and ongoing global uncertainties. Global interest rate differentials and political pressure on FED could have played a role there too, in our view.

FED decision was taken 7-3 meaning that there were three dissents. In addition, FED's new macro forecasts (dot plot) suggest that 7 out of 17 FED members do not expect another cut in the remainder of the year. That seems to be the reason why equity markets and gold fell after the FOMC decision & statement. We should note that market pricings on FED and on the state of economic activity change very quickly nowadays. We, therefore, think that one should not read too much into the first reactions of financial markets.

After the FOMC decision, FED Governor Powell held a press conference as usual. Powell defended FED's stance and highlighted that the diverse views in the Committee are a sign of health and also shows that FED discusses everything in detail. Powell added that data dependency of FED will continue. He mainly refrained from providing a hint about the course of monetary policy that added to the confusion in financial markets. Overall, financial markets' main takeaway from the meeting and press conference was that FED might not be willing to cut more in the short-term. Next FOMC meeting will be held October 29-30.

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