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Flash Macro Update (07/31/2019)

Markets got what they wanted from FED! FED's FOMC meeting ended and as generally expected FED has cut its interest rate by 25bps after opening the door for a rate cut in its previous meeting. According to the short statement of the FOMC meeting, FED decided on delivering a 25 bps cut bringing its interest rate range to 2.00% to 2.25%.

In its statement, FED's language on economy did not change much. References to employment, household spending, investment, overall growth and inflation were pretty much the same compared to the previous meeting. So, in fact, domestic factors including the state of economic activity was not confirming a rate cut. But FED clearly stated that it has cut its interest rate today because of muted inflation and ongoing global uncertainties. Brexit uncertainty and ambiguity about trade talks between US & China seem to be main culprits behind the rate cut. Probably, monetary policy easing bias of other developed central banks, such as ECB and BoJ, due to concerns on global growth also influenced FED members as well.

There were two surprises for financial markets today. Rate cut was not one of them. First surprise was that the FED has terminated its balance sheet contraction process two months earlier than scheduled. Originally, they were planning to end the contraction process in end-September 2019. Second surprise was that many market players were anticipating that the meeting today would be the start of a monetary policy easing cycle, which does not appear to be the case, according to the FED's short statement. Today, there were two dissents, which also signal that cutting the rates further without facing a sizeable slowdown in US economy will be tough.

After the FOMC decision, FED Governor Powell held a press conference as usual. The messages of the conference were not that different compared to the FOMC statement, but Powell said that they simply delivered an 'insurance cut' against approaching risks while emphasizing that the rate cut was a mid-cycle policy adjustment. He also added that the rate cut decision is different from the beginning of a lengthy cutting cycle. We think that these remarks are a clear message that there will not be a monetary policy easing cycle for now. Next FOMC meeting will be held September 17-18.

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