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Flash Macro Update (10/30/2019)

'Mid-cycle correction of US monetary policy' seems to have come to an end! FED delivered again, and the party mood of the market was not hurt by the FOMC decision today. FED's FOMC meeting ended and as mostly expected FED has cut its interest rate by another 25bps. With this cut, FED has cut its interest rate by 75 bps on a cumulative basis in the last three meetings, although the first 25 bps rate cut was called a mid-cycle adjustment. According to the short statement of the FOMC meeting, FED decided on delivering another 25 bps cut bringing its interest rate range to 1.50% to 1.75%.

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 that the FED dropped 'will act' phrase and switched to a wait and see mode. The change hints that FED will not cut at its December meeting unless an unexpected external shock hits the economy.

FED 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. In other words, trade war between US and China, slowing down European economies and Brexit ambiguity affected US economy and FED introduced another rate cut.

FED decision was taken 8-2 meaning that there were two dissents. 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's most striking comment at the press conference which captured most of the attention was that the current stance of monetary policy is appropriate. That comment also confirmed that the FED is not willing to cut in the short-term. 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 December 10-11.

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