

Fed Begins Monetary Easing Cycle



1st August 2024

FED ANALYSIS

18TH SEPTEMBER 2024



FOMC DECISION

With 11 votes to 1, the Federal Reserve (Fed) decided to reduce interest rates by 50 basis points, setting the new range between 4.75% and 5.00%.

US treasury yields fall

The US bond market has been reflecting the change in US economic policy in recent weeks. As a result, the dollar has weakened, improving the sentiment in the commodities market. There are fundamentals that can support the dollar, such as the country's fiscal challenges. However, the cycle of interest rate cuts tends to overshadow these risks in the short term.



US job market raises concerns

The United States central bank, the Fed, has the primary goals of achieving price stability and full employment. In light of the recent slowdown in the labor market and growing investor concerns about systemic risks, the Fed has intensified its focus on the country's employment situation, which is reflected in its decision to cut interest rates by 50 basis points.



Inflation converges on target, but challenges remain

Inflation in the country has fallen in recent months, which opened the way for easing monetary policy in September. However, some components, such as housing costs and services, continue to put pressure on prices.

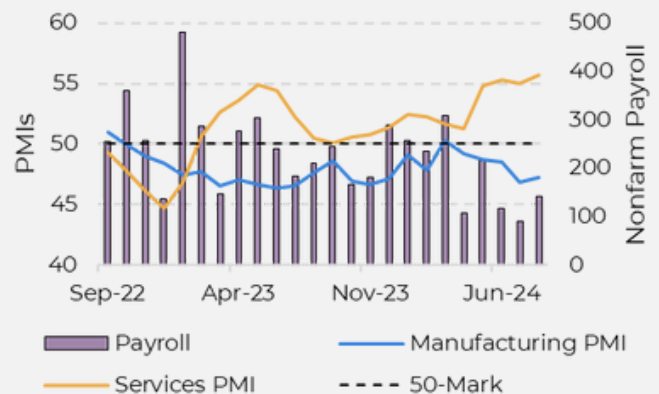


Treasury bond yields (%)



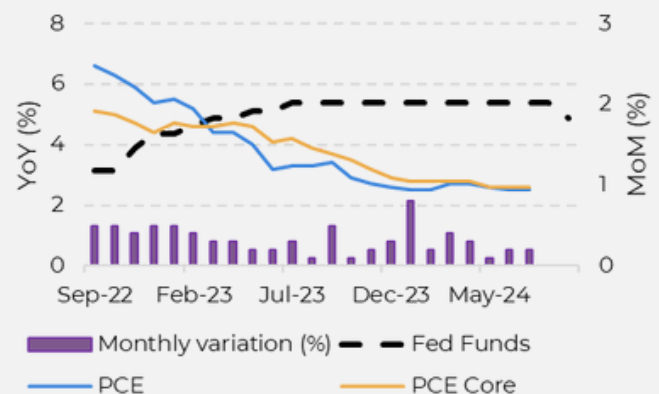
Fonte: Refinitiv.

Labour Market in the US



Fonte: Refinitiv.

Inflation in the US (%)



Source: BEA, Refinitiv.

COMMENTS

Almost all members opted for a more aggressive interest rate cut, possibly signaling increased concern about the U.S. labor market. At least two more 25 basis point rate cuts are expected by the end of the year.

The environment is becoming more favorable for commodities as more fundamentals emerge for the weakening of the dollar. Countries, especially in Asia, will have more room to cut interest rates and boost growth in the region.



What expect in the future?

- The intensity of the interest rate cut in the U.S. indicates growing concern from the FOMC regarding the country's labor market. The upcoming employment data will be crucial to understanding the Fed's behavior in the next meetings.
- The US elections could slow down interest rate cuts in the US. Expansionary fiscal policies, such as tax cuts, could worsen the fiscal deficit and raise concerns about inflation, making central banks more cautious in their decisions.

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Thank you for reading!

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