

# THROUGH THE LENS

## FOMC -13 December 2023

### U.S. Fed rate on hold, signal -75bps cuts in 2024

## Event

- The Fed in its 13 Dec 2023 Federal Open Market Committee (FOMC) meeting, agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%.
- This was the third consecutive pause and the fourth in the Fed's current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in Jun followed by another 25-bps hike in Jul.
- The December dot plot was dovish, indicating a faster pace of rate cuts in 2024-25. The 2024 median dot fell 50bp to 4.625%, implying three 25bp rate cuts next year. The Fed dot plot now points to 75bps in cuts in 2024 (from 50bps in September) and 100bps in 2025 (from 125bps).
- Chair Powell highlighted that although the Inflation has eased over the past year but remains above the longer-run goal of 2 percent.

## Growth

- Recent indicators suggest that growth of economic activity has slowed substantially from the outsized pace seen in the third quarter.
- Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. The unemployment rate is expected to be at 3.8% this year and 4.1% next year.
- The Fed emphasized that The U.S. banking system is sound and resilient. Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation.

## Interest rate outlook

- Core inflation is projected to end the year at 3.2%, far below the 3.6% expected in September, but end-2024 inflation projections only fell marginally to 2.4% (from 2.6%).
- The median projection of inflation in the SEP (Summary of Economic Projections) is 2.8 percent this year, falls to 2.4 percent next year, and reaches 2 percent in 2026.
- Although inflation moved down from its peak, its still above the 2% target.
- The dovish policy led to a rally in both debt and equity markets.
- Rate cut from RBI are expected around June 2024, after the election results .

Source: [www.federalreserve.gov](http://www.federalreserve.gov)