

FX Viewpoint Flash

Currencies
Global

USD gains, as the Fed signals just one cut in 2024

- ◆ The USD is slightly stronger after the Fed's "hawkish hold", with the median dot for 2024 narrowly favouring only one 25bp cut
- ◆ The Fed stresses that more progress on inflation is needed
- ◆ We expect the USD to remain strong, underpinned by supportive US yields and monetary easing outside of the US

At its 11-12 June policy meeting, the Federal Open Market Committee (FOMC) voted unanimously to **hold the federal funds target range unchanged at 5.25-5.50%**, as widely expected. This was the seventh consecutive meeting in which the policy rate was kept unchanged. **The accompanying statement was little changed**, retaining the language that the FOMC "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably towards 2 percent." However, the Federal Reserve (Fed) did **acknowledge modest further progress towards that target**, a change from the previously cited lack of progress. There was some tweaking of the GDP and inflation forecasts (see the table below for details), while it is worth noting that **the Fed's new forecast for the core PCE deflator at year-end 2024 is at a still sticky 2.8% y-o-y**.

The Fed still waits for greater confidence that inflation is moving towards 2%

Median of the FOMC's key economic projections	2024	2025	2026	Longer run
Real GDP growth, Q4/Q4				
June 2024 projection	2.1%	2.0%	2.0%	1.8%
March 2024 projection	2.1%	2.0%	2.0%	1.8%
PCE inflation Q4/Q4				
June 2024 projection	2.6%	2.3%	2.0%	2.0%
March 2024 projection	2.4%	2.2%	2.0%	2.0%
Core PCE inflation Q4/Q4				
June 2024 projection	2.8%	2.3%	2.0%	N/A
March 2024 projection	2.6%	2.2%	2.0%	N/A
Federal funds rate, year-end				
June 2024 projection	5.125%	4.125%	3.125%	2.750%
March 2024 projection	4.625%	3.875%	3.125%	2.562%

Source: Federal Reserve

The USD was slightly stronger, supported by the hawkish revisions to the FOMC's median interest rate projection (known as "median dot") for 2024. The new projection implies only a single 25bp rate cut this year (vs. March projection of three rate cuts). **Our economists still expect the first rate move in September 2024, followed by 75bp of rate cuts in 2025**, as core inflation slows.

The Fed now sees one 25bp rate cut in 2024

However, the USD bounce was modest, relative to the drop seen in the wake of the earlier US CPI data. In part, this may reflect the reality that many FOMC members (eight out of 19) still advocating for two rate cuts, but just not enough to make that the median outcome for 2024. **Markets are still priced for 44bp of easing this year (Bloomberg, 12 June 2024)**. This could reflect some expectation that upcoming US CPI prints will repeat dovish surprise, fostering multiple cuts this year. It may also reflect some tail risk that the Fed's policy patience will weaken the economy sufficiently to prompt a need for deeper rate cuts. Indeed, **the Fed now see four cuts in 2025**, more than the three previously outlined.

15 of the 19 FOMC members projected either 25bp or 50bp in rate cuts this year, while four projected no rate cuts

If US inflation proves to be as sticky as the Fed forecasts and the labour market remains strong, market rate expectations and the USD will have to adjust higher. **We expect the USD to remain strong**, underpinned by supportive yields, our economists' forecast of just one Fed rate cut this year, and monetary easing outside of the US. However, the scale of USD gains will likely be constrained by the buoyant level of risk appetite and signs of improving economic growth outside of the US.

The USD is likely to remain strong, in our view

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