

Macro Note

US Sep 2023 FOMC: Another Hawkish Pause As Fed Signals Higher For Longer

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- The Fed in its 19/20 Sep 2023 Federal Open Market Committee (FOMC) meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%. This was the second pause in the Fed's current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in June followed by another 25-bps hike in Jul. The Fed also voted unanimously to keep the interest rate paid on reserve (IOER) balances unchanged at 5.40%.
- The text of the Sep monetary policy statement (MPS) was largely a carbon-copy of Jul's statement, with the significant change in the text only on the economy which is seen as more bullish, in line with the markedly upgraded GDP growth forecasts, especially for 2023. At the same time, the unemployment rate projection saw further improvement across the forecast period. The totality of the language of the text and the forecast adjustments on both the economy and unemployment rate in the Sep Summary of Economic Projections (SEP), reinforce the probability of Fed achieving that "soft landing".
- The most consequential release of the Sep FOMC is likely the Dotplot which indicated strong (but not unanimous) support among policy members for one more hike in 2023. Importantly, the Sep Dotplot showed 10 of the 19 FOMC members expect the policy rate to remain above 5% next year (versus just 6 members who echoed that view in Jun) while only 2 members expect rates to fall below 4.5% in the Sep Dotplot (versus 8 members indicated that in Jun FOMC). The implication is very clear, that expectations for rate cuts in 2024 has been drastically curbed and Fed policy could remain tight for a much longer duration than what we previously believed.
- **FOMC Outlook - One More Hike In Nov & A Later Timeline For Cuts** The latest Dotplot's hawkish upward revision together with SEP's "soft landing" projections is making us reassess (again) the terminal rate, especially against the still elevated headline and core PCE this year, and potentially higher energy prices adding to the price re-acceleration process. We now expect the Fed to hike one final time by 25-bps in the Nov 2023 FOMC and pause thereafter. This means, with the FFTR currently at 5.25-5.50%, we are adjusting our terminal FFTR level higher to 5.50-5.75%, which unsurprisingly is forecast to last through 2023.
- We also expect the Fed rate cuts to be delayed till mid-2024 (from previous forecast of 1Q 24) and at a less aggressive pace of just 75 bps of rate cuts for 2024 (from previous forecast of -125bps). And while we think the Fed will hike once more, but as Powell alluded to during Sep FOMC press conference ("*We're fairly close, we think, to where we need to get*"), the [hiking] cycle is near the end, we still hold the view the FFTR is unlikely to go to 6%.

Sep 2023 FOMC: As Expected, Fed Left Rates Unchanged In Sep But Signals Tighter Policy Through 2024

The US Federal Reserve (Fed), in its 19/20 Sep 2023 Federal Open Market Committee (FOMC) meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%, in line with market expectations. This was the second pause in the Fed's current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in June followed by another 25-bps hike in Jul. Separately, the Board of Governors of the Federal Reserve System voted unanimously to keep the interest rate paid on reserve (IOER) balances unchanged at 5.40% with effect from 21 Sep 2023.

The Fed also maintained its commitment to "continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities as described in its previously announced plans" which means keeping to the monthly reduction of US Treasuries at US\$60bn and mortgaged-back securities (MBS) at US\$35bn, as stipulated in its Implementation Note.

The text of the Sep monetary policy statement (MPS) was largely a carbon-copy of Jul's statement, with the significant change in the text only on the economy where *"Recent indicators suggest that economic activity has been expanding at a **solid** pace."* (versus *"at a modest pace"* in the Jul FOMC) which is seen as more bullish, in line with the markedly upgraded GDP growth forecasts, especially for 2023. The outlook for the labor market was slightly less bullish, as *"Job gains have **slowed** in recent months **but remained strong**, and the unemployment rate has remained low"* (from *"Job gains have been robust in recent months, and the unemployment rate has remained low"* in the Jul FOMC) while adjusting the unemployment rate forecasts lower. The totality of the language of the text and the forecast adjustments on both the economy and unemployment rate, reinforce the probability of Fed achieving that "soft landing".

On inflation, it *"remains elevated"* and *"The Committee is strongly committed to returning inflation to its 2 percent objective."* (unchanged from Jul FOMC). The Fed repeated the mention that *"The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain."* (unchanged since May 2023 FOMC).

During FOMC Chair Powell's press conference after the FOMC meeting, he did not comment on whether the Fed will resume its hiking cycle in Nov, only reiterating his earlier comments from Jackson Hole that the Fed is *"in a position to proceed carefully as we assess the incoming data and the evolving outlook and risks... We're prepared to raise rates further if appropriate, and we intend to hold policy at a restrictive level until we're confident that inflation is moving down sustainably toward our objective."* When asked about why the Dotplot was raised so much (for 2024), Powell said that the Summary of Economic Projections (SEP) is not a plan, and that policy will adjust as appropriate. Powell also dismissed the notion that a "soft landing" is a baseline scenario for the Fed as he explained a "soft landing" is not the Fed's baseline expectation for the US economy, but it is "a plausible outcome, that there was a path to a soft landing." Powell added that the SEP is what people think will be appropriate as of now to achieve 2% inflation.

Sep Dotplot Delivers Hawkish Message: Points To An Unchanged 5.6% By End-2023, But Much Less Easing On The Cards In 2024

The most consequential release of the Sep FOMC is likely the latest Dotplot as it showed the median terminal rate projection was unchanged at 5.6% in the Sep FOMC (from the Jun FOMC), implying one more 25-bps rate hike this year. 12 of the 19 FOMC policymakers have their dots coalescing at 5.50-5.75%, while the remaining 7 opted to stay at the current range of 5.25-5.50%, indicating strong (but not unanimous) support among policy members for one more hike in 2023.

For 2024, the distribution of the projections gets wider but importantly, the Sep Dotplot showed 10 of the 19 FOMC members expect the policy rate to remain above 5% next year (versus just 6 members who echoed that view in the Jun FOMC). In the opposite spectrum, only 2 members expect rates to fall below 4.5% in the Sep Dotplot (versus 8 members indicated that in Jun FOMC). The implication is very clear, that expectations for rate cuts in 2024 has been drastically curbed and Fed policy could remain tight for a much longer duration than what we previously believed. The median longer run FFTR projection remained at 2.5% (unchanged since Jun 2022 FOMC).

2023 GDP Growth Revised Markedly Higher While Headline & Core PCE Inflation Revised Lower

For the latest Summary of Economic Projections (SEP), the adjustments made suggest that the FOMC members are even more bullish on this year's growth compared to Jun FOMC (with GDP growth in 2023 revised more than doubled to 2.1% from 1.0% projected previously in Jun), while 2024 growth also got bumped up to 1.5% (from 1.1% projected previously in Jun).

At the same time, the unemployment rate projection saw further improvement across the forecast period, with the jobless rate now expected to reach just 3.8% by end-2023 (versus 4.1% made in Jun SEP) and will edge higher to 4.1% in 2024 and 2025 (versus 4.5% made previously in Jun SEP), then to 4.0% in 2026, with the longer run unemployment rate remaining anchored at 4.0% (unchanged since Jun 2021 SEP).

The inflation outlook was a bit divergent as headline PCE inflation was lifted slightly in 2023 to 3.3% (from 3.2% previously, perhaps due to energy prices) and held at 2.5% in 2024 (unchanged) and then 2.2% in 2025 (up from 2.1% projected in Jun's SEP). In comparison, near term core inflation pressures is expected to ease (with the downward revision of core PCE inflation rates in 2023 to 3.7% from 3.9% made previously in Jun's SEP) and held at 2.6% in 2024 (unchanged) and then 2.3% in 2025 (up from 2.2% projected in Jun's SEP).

Revising Our FOMC Outlook – One More Hike In Nov & A Later Timeline For Cuts

Our original expectation was for the Fed to hold the terminal FFTR level at the range of 5.25-5.50% for the rest of 2023. But the Dotplot's hawkish upward revision together with SEP's "soft landing" projections is making us reassess (again) the terminal rate, especially against the still elevated headline and core PCE this year, and potentially higher energy prices adding to the price re-acceleration process. As such, it seems that the Fed will hike once more, but as Powell alluded to during Sep FOMC press conference (*"We're fairly close, we think, to where we need to get"*), the [hiking] cycle is near the end, we still hold the view the FFTR is unlikely to go to 6%.

We now expect the Fed to hike one final time by 25-bps in the Nov 2023 FOMC and pause thereafter. This means, with the FFTR currently at 5.25-5.50%, we are adjusting our terminal FFTR level higher to 5.50-5.75%, which unsurprisingly is forecast to last through 2023. We also expect the Fed rate cuts to be delayed till mid-2024 (from previous forecast of 1Q 24) and at a less aggressive pace of just 75 bps of rate cuts for 2024 (from previous forecast of -125bps).

Again, it should be noted that these forecasts are subject to incoming data and financial sector developments. According to data compiled by CME FedWatch tool (as of 20 Sep), the probability of a 25-bps rate hike in Nov FOMC is at a low 29.4%.

The next FOMC meeting will be on 31 Oct-01 Nov 2023 and the decision will be accompanied by Powell's press conference but without an updated SEP. Key data ahead of the decision include Aug PCE (29 Sep) and Sep PCE (27 Oct) by BEA, US jobs data for Sep by the BLS (6 Oct), and CPI by BLS (12 Jul) but a potential US government shutdown in Oct may affect the timeliness/availability of some official data releases, depending on the duration of the shutdown.

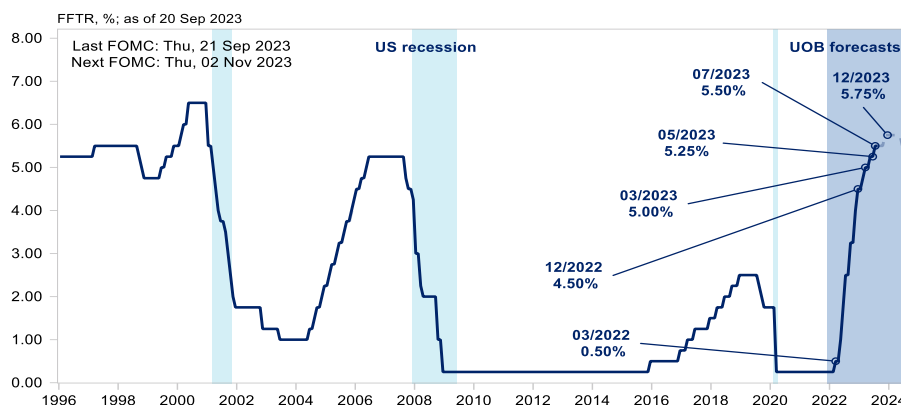
Please use the following links to access the official Fed documents:

- The 19/20 Sep 2023 FOMC [statement](#)
- The Sep 2023 Summary of Economic Projections [report](#)
- The Sep 2023 FOMC implementation [note](#) (interest rate paid on reserves, IOER, unchanged at 5.40%, effective from 21 Sep 2023)
- The FOMC calendar for [2023](#) and [2024](#)

Chart 1: UOB's Projected US Federal Funds Target Rate Trajectory (As Of 21 Sep 2023)

Source: Macrobond, UOB Global Economics & Markets Research

After 525bps Of Hikes In 11 FOMC Meetings since Mar 2022, Fed Is Now Likely To Hike One More Time By 25-bps in Nov To The Peak Rate Of 5.50-5.75%.



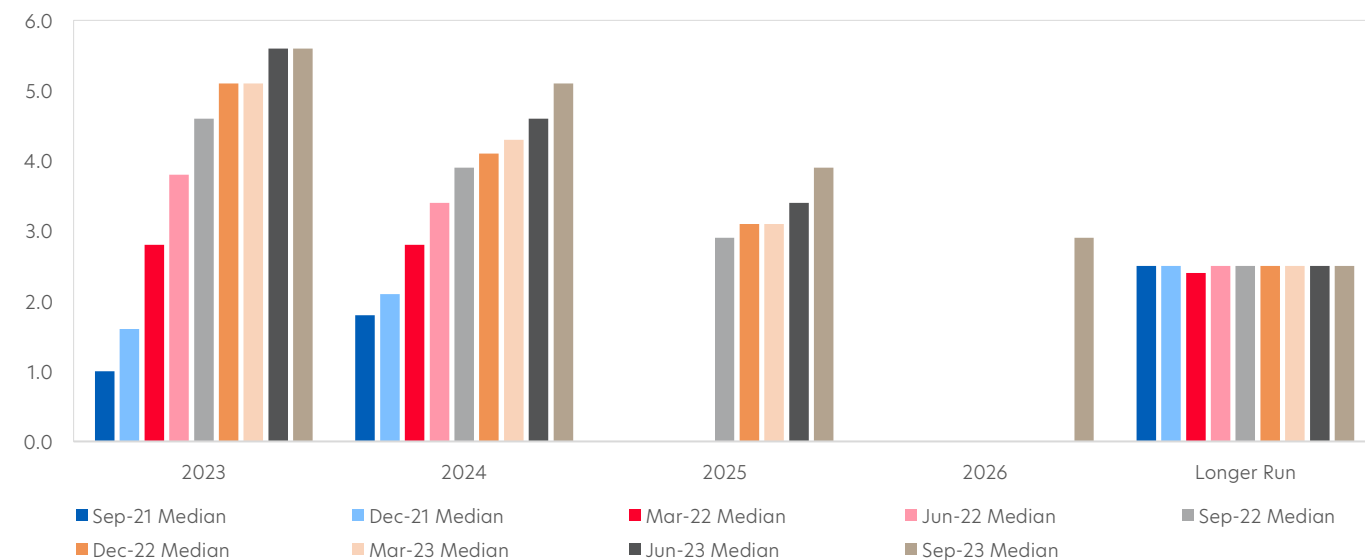
Our Forecast

%	As of 21 Sep	4Q23	1Q24	2Q24	3Q24
US Fed Funds Target -					
Upper Bound	5.50	5.75 (5.50)	5.75 (5.00)	5.50 (4.50)	5.25 (4.25)

Source: Global Economics & Markets Research (as of 21 Sep 2023), Old forecasts in brackets

Chart 2: Comparison & History Of Past Projections

Source: The Federal Reserve, UOB Global Economics & Markets Research



Economic Projections of US Federal Reserve Board, September 2023

Variable	Central Tendency				
	2023	2024	2025	2026	Longer Run
Change in real GDP	1.9-2.2 (↑)	1.2-1.8 (↑)	1.6-2.0 (-)	1.7-2.0	1.7-2.0 (-)
June 2023 projection	0.7-1.2 (↑)	0.9-1.5 (↓)	1.6-2.0 (↓)		1.7-2.0 (-)
March 2023 projection	0.4-1.0 (↓)	1.3-2.0 (↓)	1.6-2.0 (-)		1.7-2.0 (-)
December 2022 projection	0.5 - 1.5 (↓)	1.4 - 2.0 (↓)	1.6-2.0		1.7 - 2.0 (↓)
Unemployment rate	3.7-3.9 (↓)	3.9-4.4 (↓)	3.9-4.3 (↓)	3.8-4.3	3.8-4.3 (↓)
June 2023 projection	4.0-4.3 (↓)	4.3-4.6 (↓)	4.3-4.6 (↓)		3.8-4.3 (-)
March 2023 projection	4.4-4.7 (↑)	4.3-4.8 (↑)	4.0-4.7 (↑)		3.8-4.3 (↑)
December 2022 projection	4.1 - 4.5 (↑)	4.0 - 4.6 (↑)	4.0 - 4.5		3.8 - 4.3 (↑)
PCE inflation	3.2-3.4 (↓)	2.3-2.7 (↓)	2.0-2.3 (↓)	2.0-2.2	2.0 (-)
March 2023 projection	3.0-3.5 (↓)	2.3-2.8(↑)	2.0-2.4(↑)		2.0 (-)
December 2022 projection	2.9-3.5 (↑)	2.3-2.7(↑)	2.0-2.2		2.0 (-)
September 2022 projection	2.6 - 3.5 (↑)	2.1 - 2.6 (↑)	2.0 - 2.2		2.0 (-)
Core PCE inflation	3.6-3.9 (↓)	2.5-2.8 (↓)	2.0-2.4(-)	2.0-2.3	
June 2023 projection	3.7-4.2 (↑)	2.5-3.1 (↑)	2.0-2.4(↑)		
March 2023 projection	3.2-3.7 (↑)	2.3-2.7 (↑)	2.0 - 2.2 (-)		
December 2022 projection	3.0 - 3.4 (↑)	2.2 - 2.5 (↑)	2.0 - 2.2		
Federal Funds Rate	5.4-5.6 (-)	4.6-5.4 (↑)	3.4-4.9 (↑)	2.5-4.1	2.5 - 2.8 (↑)
June 2023 projection	5.4-5.6 (↑)	4.4-5.1 (↑)	2.9-4.1 (↑)		2.5 - 2.8 (↑)
March 2023 projection	5.1-5.6 (↑)	3.9-5.1 (↑)	2.6-3.9 (-)		2.4 - 2.6 (↑)
December 2022 projection	5.1-5.4 (↑)	3.9-4.9 (↑)	2.6-3.9 (↑)		2.3 - 2.5 (-)
Median					
Change in real GDP	2.1 (↑)	1.5 (↑)	1.8 (-)	1.8	1.8 (-)
June 2023 projection	1.0 (↑)	1.1 (↓)	1.8 (↓)		1.8 (-)
March 2023 projection	0.4 (↓)	1.2 (↓)	1.9 (↑)		1.8 (-)
December 2022 projection	0.5 (↓)	1.6 (↓)	1.8 (-)		1.8 (-)
Unemployment rate	3.8 (↓)	4.1 (↓)	4.1 (↓)	4.0	4.0 (-)
June 2023 projection	4.1 (↓)	4.5 (↓)	4.5 (↓)		4.0 (-)
March 2023 projection	4.5 (↓)	4.6 (-)	4.6 (↑)		4.0 (-)
December 2022 projection	4.6 (↑)	4.6 (↑)	4.5 (↑)		4.0 (-)
PCE inflation	3.3 (↑)	2.5 (-)	2.2 (↑)	2.0	2.0 (-)
June 2023 projection	3.2 (↓)	2.5 (-)	2.1 (-)		2.0 (-)
March 2023 projection	3.3 (↑)	2.5 (-)	2.1 (-)		2.0 (-)
December 2022 projection	3.1 (↑)	2.5 (↑)	2.1 (↑)		2.0 (-)
Core PCE inflation	3.7 (↓)	2.6 (-)	2.3 (↑)	2.0	
June 2023 projection	3.9 (↑)	2.6 (-)	2.2 (↑)		
March 2023 projection	3.6 (↑)	2.6 (↑)	2.1 (-)		
December 2022 projection	3.5 (↑)	2.5 (-)	2.1 (-)		
Federal Funds Rate	5.6 (-)	5.1 (↑)	3.9 (↑)	2.9	2.5 (-)
June 2023 projection	5.6 (↑)	4.6 (↑)	3.4 (↑)		2.5 (-)
March 2023 projection	5.1 (-)	4.3 (↑)	3.1 (-)		2.5 (-)
December 2022 projection	5.1 (↑)	4.1 (↑)	3.1 (↑)		2.5 (-)

Source: US Federal Reserve

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