Fast Comment US

From pause to plateau; November Fed monetary policy decision

- Policy rate kept unchanged at 5.25-5.5 again - the pause is turning into a plateau
- Risk of another hike as inflation keeps the Fed on alert
- We stick to our long-held baseline that the Fed is done hiking

The pause is turning into a plateau

The Federal Reserve kept its policy rate unchanged at the 5.25-5.5 percent range, as anticipated by virtually all economists and fully priced in by the markets. For the third consecutive meeting, the Fed's press release shows that the FOMC has been surprised by the strength of the economy, tweaking the description of growth and employment. But despite that, and the slight upturn in inflation (see graphs below), the FOMC refrained from firming up its wording on inflation. That signals a slight dovishness and adds to our impression that the rate hike pause is turning into a plateau. Market interest rates declined on impact.

Risk of another hike as inflation keeps the Fed on alert

At the press conference, Fed Chair Jerome Powell answered a question whether there is a hiking bias on the FOMC right now by saying "It's fair to say that that's the question we're asking -- should we hike more?" Despite such hawkish-tinted phrases, interest rates kept declining during the Q&Q session. Powell and the FOMC are confident about the anchoring of inflation expectations, "pretty comfortable" with the wage pressure and viewing the risks as coming into better balance.

However, the FOMC "remains highly attentive to inflation risks", and Powell acknowledged that "a few months of good data [NB: low inflation prints over the summer, see graphs below] are only the beginning of what it will take to build confidence that inflation is moving down sustainably toward our goal". All told, surprisingly high incoming inflation prints *could* still cause the FOMC to hike again.

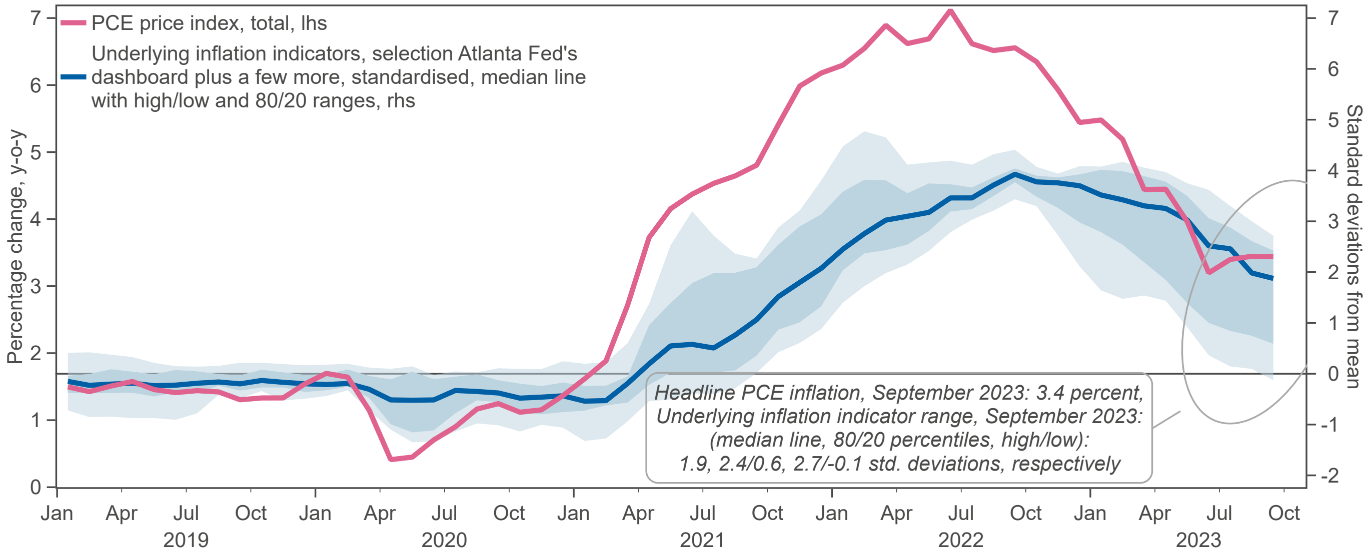
At its September meeting, a majority of FOMC participants expected that one more hike would be appropriate. Since then, market interest rates have risen even further, adding to the surge that started in July. As we showed in early October, several drivers can help explain the interest rate rise. Powell said that tighter financial conditions *can* supplant for another policy rate hike, but under two conditions: it has to be persistent, and it cannot just be a reflection of changed expectations for future policy rate moves (which the Fed then would need to follow through on). Powell said the Fed is not yet convinced about the persistence part, but said that the driver does not so far appear to be expectations of higher policy rate. In its press release, the FOMC also changed the language slightly - to show that it takes note a significant tightening of financial conditions - by adding the word *financial* here: "Tighter *financial* and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation."

We stick to our long-held baseline that the Fed is done hiking

Ultimately, we judge that the Fed will not raise its policy rate again. The FOMC can afford to proceed carefully, as inflation has been moving in a more moderate direction, and we do not forecast significantly higher inflation than FOMC participants did in September.

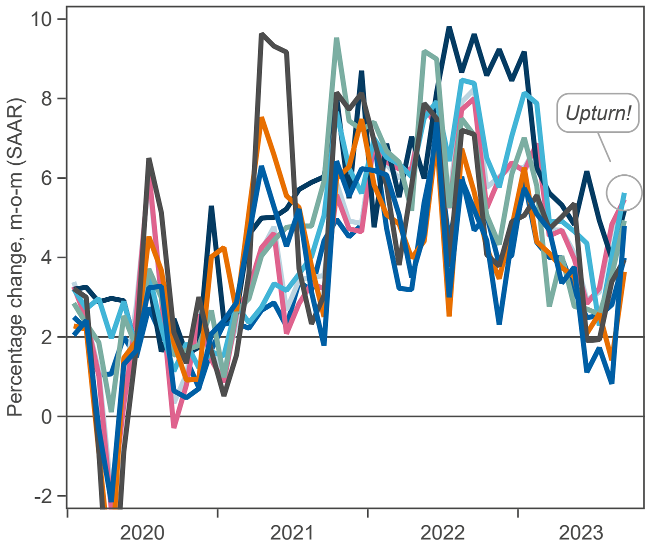
When it comes to the other policy lever, Powell said in the Q&A that the FOMC "is not considering or talking about" changing the pace of QT in light of the rise in longer market interest rates. At the same time, Powell played down the role QT has in the interest rate surge.

Underlying inflation easing gradually...



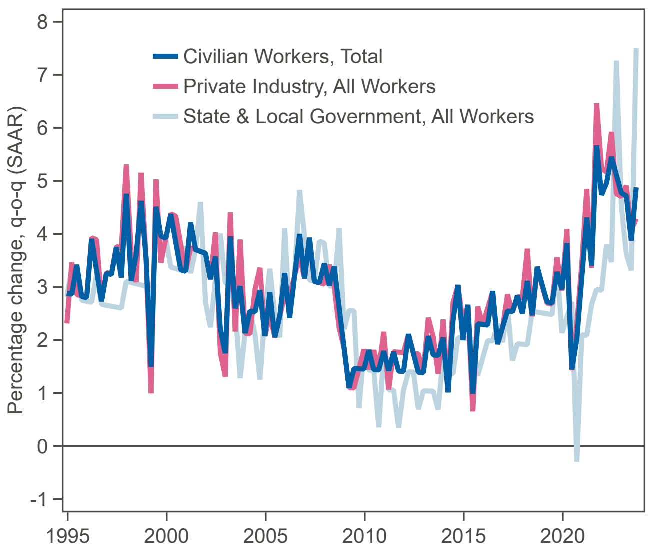
Sources: Macrobond, BLS, BEA, FRBs of Atlanta, Cleveland, Dallas, NY and SF, and Handelsbanken

...but resurgent tendency in recent monthly rates



Source: Macrobond, BLS, BEA, FRBs of Cleveland, Dallas & SF, Handelsbanken

And ECI wage momentum higher than consistent with 2 percent inflation



Sources: Macrobond, BLS and Handelsbanken

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