Fast Comment US

Following the plan: Soon slow the hiking pace, no dovish pivot; November Fed monetary policy meeting

- Expected 0.75 percentage point policy rate rise, and signal about slower tightening ahead
- Dovish pivot? Please hold. This is still the Fed following its tightening plan
- Why restrictive-for-longer policy? - Inflation is too high, and the labour market is too tight

Expected 0.75 percentage point hike; signal about slower tightening ahead

At its November meeting, for the fourth straight meeting, the FOMC decided to raise the Federal funds rate by 0.75 percentage points. Thereby, the policy rate reaches the 3.75-4 percent range. The move was fully expected by economists and priced in the market. Moreover, the statement contained new guidance about how the FOMC will determine the future pace of the "ongoing" rate rises it anticipates. The bottom line is that the FOMC opened the door to slowing down tightening ahead, signalling that was also more or less expected ahead of today's announcement. At the press conference **Fed Chair Jerome Powell stated that smaller size hikes may begin "as soon as the next meeting, or the one after that"**. Our forecast is for a 0.50 p.p. hike in December.

Initially, today's FOMC message appeared as additional steps toward delivering on the guidance signal from September, when the FOMC policy rate projection ("dot plot") showed the 4.25-4.5 range as median forecast - guidance that was then, a mere six weeks ago, seen as hawkish. Today's announcement, on the other hand, was received as slightly dovish, as the FOMC delivered a statement with new guidance language. Market interest rates fell and the stock market strengthened on the impact. But like so often before, the overall message changed during the press conference. Importantly, **Powell stated that the FOMC now sees a higher peak in the rate hiking cycle than previously**, and quickly market interest rates reversed their initial drop.

The next FOMC decision comes on December 14, and will include updated forecasts.

Dovish pivot? Please hold. This is still the Fed following its tightening plan

"...the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and [...] financial developments"

Lately, there has been much speculation about an impending dovish pivot from the Fed. That did not materialise today. Instead, the FOMC keeps delivering on its long-held plan to 1) quickly ("expeditiously") stop *stimulating the economy* by getting the policy rate up to the neutral rate. And 2), beyond that point, carry out any further tightening into outright restrictive territory in a more gradual manner. Today, Powell reminded us about that repeatedly telegraphed plan, while also revealing that (at these now achieved policy rate levels) decisive progress on inflation is not necessarily needed before an upcoming shift to the more gradual hiking manner. The statement shows a broader approach from the FOMC, now taking "into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments".

So now, as the policy rate is arguably becoming restrictive for the economy, the FOMC wants to avoid excessive tightening, and therefore needs to give itself time to evaluate the full policy effects, which to a large extent affects the economy with a lag. It is also the case that the short-term neutral policy rate is hard to estimate, so the FOMC is aiming to discover the level over time, and then reach "sufficiently restrictive" actual policy rate levels to defeat inflation. Another reason to soon slow the tightening pace is to decrease the risk of financial market turmoil - while tighter financial conditions is part of how the Fed cools the economy, market dysfunction could force the FOMC to loosen policy prematurely, before inflation is under control.

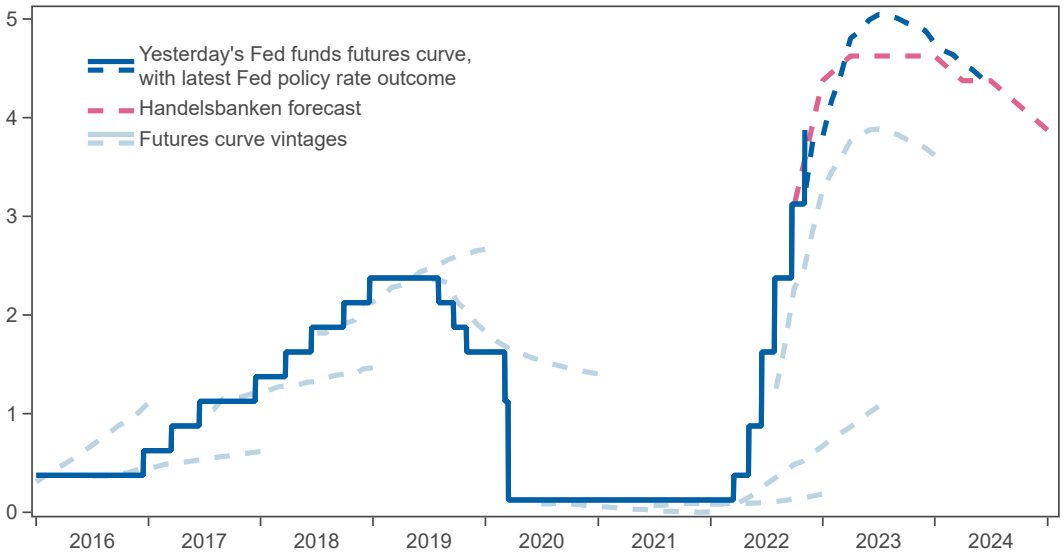
Why restrictive-for-longer policy? Inflation too high; labour market too tight

It is very premature to start a discussion about pausing the rate hikes

Powell stated that any talk of pausing the rate hikes "is very premature". Why is that? As Powell described in his Jackson Hole speech in August, the FOMC does not want to repeat the mistake in the 1970s. Back then, when signs of slowing inflation arose, policy was loosened prematurely, only to make the high inflation return. Currently, there are signs that inflation is peaking, but it is too early to declare victory. The labour market remains very tight, and wage pressures are higher than what is consistent with inflation back at the 2-percent target.

On the one hand market prices a higher peak than we forecast, but on the other hand it expects rate cuts to come much sooner

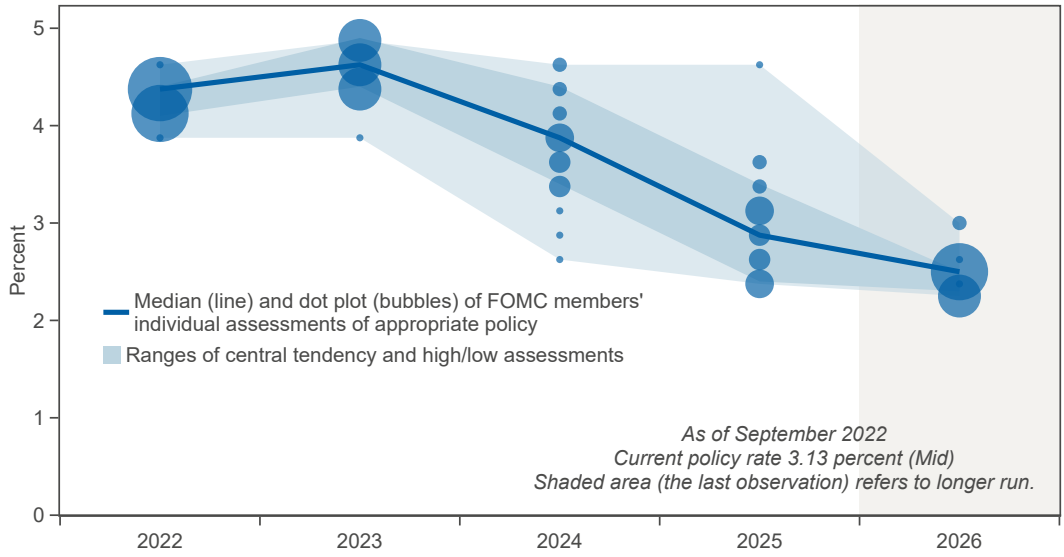
Fed: Handelsbanken vs. market pricing, with vintages



Sources: Macrobond, Federal Reserve and Handelsbanken

The FOMC foresees even higher policy rate than in Sept. An extended period of restrictive policy, with yearend 2023 policy rate even higher than yearend 2022

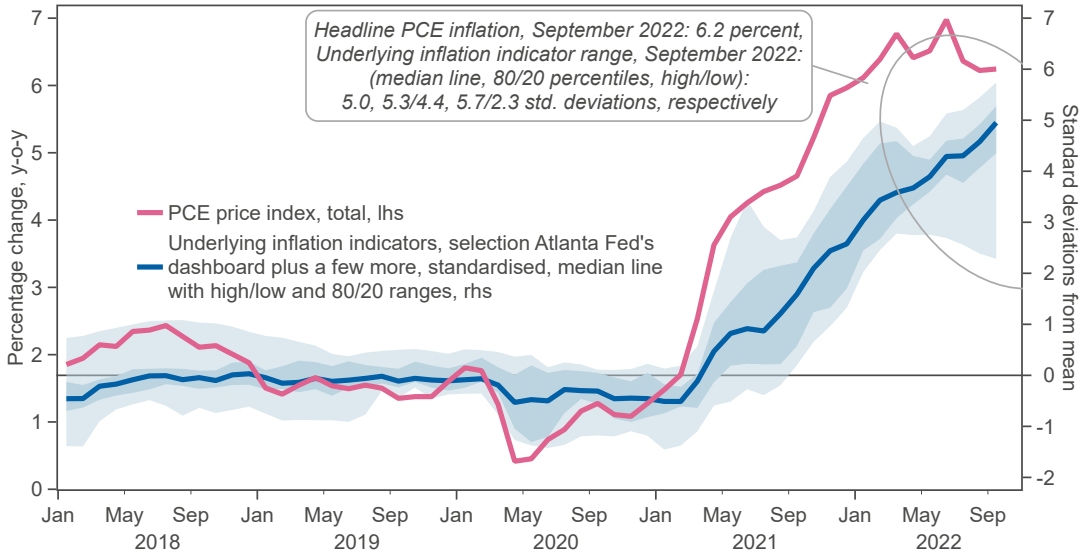
FOMC members' policy rate projections (from September)



Sources: Macrobond, Federal Reserve and Handelsbanken

Inflation remains much too high for the Fed

Inflation vs. underlying inflation indicators



Sources: Macrobond, BLS, BEA, FRB:s of Atlanta, Cleveland, Dallas, NY & San Francisco, and Handelsbanken

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