Fast Comment US

Pause, Play, Pause? Hike today, outlook clouded in data-dependence; July Fed monetary policy decision

- Fed takes action after the June hold: Raises policy rate to 5.25-5.5% range
- Dovish tweak in guidance: Depend on incoming data, no reference to June "dot plot" autumn hike
- Widely expected Fed decision, hence limited impact on BoE, ECB, Norges Bank, Riksbank outlooks
- Our base case is that this was Fed's last hike, but we see risks on the upside

Fed takes action after the June hold: Raises policy rate to 5.25-5.5% range

The Federal Reserve raised its policy rate by 25bp, to the 5.25-5.5 percent range, as anticipated by virtually all economists and fully priced in by markets. The Fed's press release hints that the FOMC has been somewhat surprised by the overall strength of the US economy, calling the current expansion "moderate" rather than using the "modest" label used in June. Apart from that, the statement is fully intact.

This policy action and forward guidance were expected, but Fed Chair Jerome Powell's press conference communication was interpreted as marginally dovish. Hence, a significant market impact materialised, with markets no longer pricing a 50 percent probability of another rate hike, but instead around 40 percent. The dollar weakened somewhat, while the equity market popped and then fell back again.

Dovish tweak in guidance

The overall forward guidance is one of data dependent policy-making, with the FOMC keeping the phrase that it "will continue to monitor the implications of incoming information for the economic outlook" to shape policy. Powell clarified further by saying decisions will be made "meeting by meeting", and the FOMC has not yet considered going to an "every-other-meeting"-mode. If incoming data warrants it, it is "possible that we raise at September meeting, also possible that we hold the rate unchanged", Powell stated, and added the FOMC will "certainly hold rates high for some time".

The marginally dovish tilt in Powell's press conference was the Fed Chair refraining from repeating the median of the rate forecasts that FOMC members entered at the June meeting, showing one more hike likely this autumn. It appears the Fed is now genuinely data dependent.

All told, this was still a Fed decision without major surprises, and hence it has only a limited impact on the BoE, ECB, Norges Bank, and Riksbank outlooks.

Our base case is that this was Fed's last hike, but we see risks on the upside

Since the June Fed decision, we lifted our policy rate forecast by 25bp, implying that today's rate rise would be the final one in this cycle. As the spring banking worries have calmed surprisingly well and the US economy is still rather robust, we now see some risk that we will need to lift the forecast again. However, Powell revealed that the new Senior loan officer survey will broadly show tight credit conditions, "as you would expect". No signal that this news was a trigger for worries among FOMC members, nor caused the marginally dovish tone, but something that speaks against a possible change of our forecast. Next full Handelsbanken macro forecast is out on September 20, but before then do not miss the Jackson Hole central bankers' meeting August 24-26.

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