**Central Banks**

# FOMC Meeting: July 30th-31th

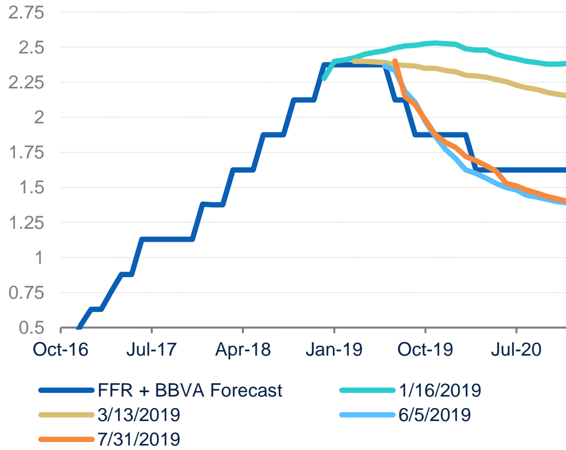
Boyd Nash-Stacey
**July 31, 2019**

As we expected, the Fed lowered its benchmark interest rate by 25bp to 2-2.25%, citing “implications of global developments for the economic outlook as well as muted inflation pressures” as the reason for cutting. However, the assessment of incoming data was rather benign with no change to the language surrounding inflation developments and only minor changes to the committee’s degree of certainty on the evolution of investment and consumption. The recent GDP report cleared up some of the uncertainties surrounding the committee’s outlook in June. In addition, the committee announced the end of the “reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.”

Based on market expectations, the dovish bias signaled at the June meeting and the dovish comments thereafter, it was no surprise that the Fed delivered today’s insurance cut. However, as evidenced by the drop in equity prices during the Q&A, the justification for doing so was far from clear. At times Powell jawboned with a prepared comment on the rationale for the cut, alluding to the need to “insure against downside risks from weak global growth and trade policy uncertainty; to help offset the effects these factors are currently having on the economy; and to promote a faster return of inflation to our symmetric 2 percent objective.” However, when pushed in the Q&A to clarify if this move was data-dependent, related to trade policy or related to something else, he had a difficult time reconciling his responses. Some of the more befuddling exchanges in the Q&A session centered on the idea of “mid-cycle” cuts versus a more prolonged tightening cycle, and data dependence vs. what he described at times as a domestic economy with no significant risks. Similarly, he suggested that in spite of the positive surprises in the data, when looking back on how markets responded to the shift in monetary accommodation, it was natural to believe further removal of accommodation would help to sustain the expansion and assuage market concerns.

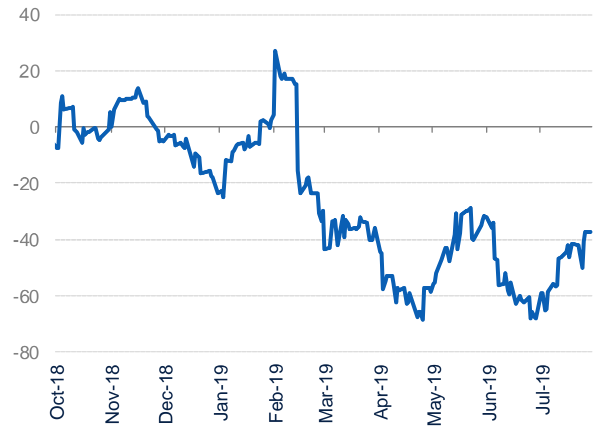
While the positive surprises in the data appeared to have the potential to alter the Fed’s plans for future interest rate cuts, Powell’s press conference seems to suggest that risk monitoring has gained some relevance relative to data dependency, complicating the task of anticipating future cuts. As such, based on Powell’s responses, it appears that further improvements in the inflation outlook and labor market conditions may not be enough to deter additional rate cuts in the short-term. Assuming trade policy uncertainty remains and global economic growth continues to weaken, our baseline assumes the Fed will cut rates by 25bp again in September.

Chart 1. **Market Based Implied Fed Funds Rate, %**




Source: BBVA Research / INEGI

Chart 2. **U.S. Economic Surprise Index**




Source: BBVA Research

## Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.