FED WATCH: UNDER PRESSURE

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Throughout my travels, one overarching question people ask me is, Why is the Federal Reserve (Fed) so intent on cutting rates? It's a great question, don't you think? I mean, let's put it in some perspective. If I were to say to you that the unemployment rate is essentially at a 50-year low and the economy has produced an average of almost 175,000 jobs monthly so far in 2019, chances are you wouldn't think we'd need to have a rate-cut discussion. However, this is the state of affairs as summer vacations kick in, and perhaps illustrates the pressure that policymakers could be feeling from the money and bond markets (although they can't admit that). Let's recap Chairman Powell's recent Congressional appearances.

- If Powell wanted to counter the money and bond markets expectation of a July rate cut, these testimonies were the chance to do just that. With all eyes glued to their screens, Powell *did not* say anything to dissuade expectations that a rate cut is forthcoming.
- Jobs report, what jobs report? When asked point-blank if the June jobs report changes his outlook on the economy and rates, Powell said, "The straight answer to your question is no."
- In fact, this line from his prepared remarks says it all: Since the June FOMC meeting, "it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook. Inflation pressures remain muted."
- So, despite the fact that their "baseline outlook is for economic growth to remain solid" and the U.S. and China are back at the negotiating table…
- …unless something dramatic happens between now and July 31, it is hard to imagine the Fed not cutting rates.
- Now it's a question of 25 basis points (bps) or 50 bps. At the June meeting, Powell said the policymakers had not really engaged on that topic and would "depend heavily on incoming data and the evolving risk picture."
- Case for 50 bps: Powell stated at the June FOMC presser the idea of an ounce of prevention being worth a pound of cure. In other words, do one-half point and sit back awhile.
- Case for 25 bps: Current U.S. econ data (remember June's jobs report) doesn't argue for such an aggressive move, one could argue, or any move for that matter. Nevertheless, if the Fed is determined to go, do a one-quarter point cut and keep the language from their June policy statement the same.

At a minimum, it certainly appears the Fed would like a "do-over" from their December rate hike. Remember, the market is still looking for a total of four rate cuts, so there could still be room for disappointment.

Unless otherwise stated, data source is Bloomberg, as of July 11, 2019.

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Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Basis point : 1/100th of 1 percent.