

FX Viewpoint Flash

Currencies
Global

USD: The Fed signals three cuts in 2024 still likely

- ◆ The Fed held its policy rates steady for the fifth straight meeting, as widely expected
- ◆ The Fed Chair Powell's comments offered a dovish spin to the Fed's policy rate projections and higher growth forecasts
- ◆ The USD weakened after the decision and is likely to be range-bound over the near term, in our view

The Federal Open Market Committee (FOMC) voted unanimously to **hold the federal funds target range unchanged at 5.25-5.50%** at its 19-20 March policy meeting. There were **no changes to the forward guidance portion of the policy statement**. The FOMC continues to indicate that the risks to its employment and inflation goals "are moving into better balance", but that it "does not expect it will be appropriate to reduce the target range [for the federal funds rate] until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

The Federal Reserve (Fed) Chair Jerome Powell's comments also appear to lean slightly dovish, especially in comparison to the slightly hawkish shift to the Fed's forecasts and projections (see the table below for details). Chair Powell noted that the policymakers "generally revised up their growth projections since December." He also said, "inflation came in a little bit higher as a separate matter. But, nonetheless, we continue to make good progress on bringing inflation down." Many of his comments were consistent with prior discussions, but there appeared to be some asymmetry in some of the suggested reaction functions. For example, he suggested that **an unexpected softening in the labour market could see policy being loosened**, but that if labour markets were to be stronger than expected, it may not necessarily mean rates would need to stay higher for longer.

One could also infer a **slightly dovish tilt from a dot plot**, which lowered the expected real policy rate (i.e., inflation-adjusted interest rate) by end-2024 via higher inflation forecasts but an unchanged rate forecast. **Our economists continue to expect the first Fed cut in June, with 75bp of cumulative rate reductions in 2024, and an additional 75bp of policy rate cuts in 2025.**

Median of the FOMC's key economic projections	2024	2025	2026	Longer-run
Real GDP growth, Q4/Q4				
March 2024 projection	2.1%	2.0%	2.0%	1.8%
December 2023 projection	1.4%	1.8%	1.9%	1.8%
PCE inflation Q4/Q4				
March 2024 projection	2.4%	2.2%	2.0%	2.0%
December 2023 projection	2.4%	2.1%	2.0%	2.0%
Core PCE inflation Q4/Q4				
March 2024 projection	2.6%	2.2%	2.0%	N/A
December 2023 projection	2.4%	2.2%	2.0%	N/A
Federal funds rate, year-end				
March 2024 projection	4.625%	3.875%	3.125%	2.562%
December 2023 projection	4.625%	3.625%	2.875%	2.500%

Source: Federal Reserve

The USD weakened overnight, with the USD Dollar Index (DXY) sliding back below 104. The USD could head back to the weak side of its recent range over the near term. Looking ahead, **the broad USD is likely to remain determined by the interplay of risk appetite and rates**, with any positive momentum on the former likely to undermine the USD. Relative rates may offer some support to the USD, if other central banks, most notably in Europe, show more dovish momentum in the months ahead. Meanwhile, activity data may need to strengthen much more meaningfully elsewhere in order to get a much weaker USD.

The Fed stuck to the same script it laid out in January

The Fed sees stronger growth and slightly higher core inflation in 2024

The Fed sees three rate cuts in 2024

We expect the USD to remain range-bound over the near term

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