FOMC Update

. . . as summarized by Smith Shellnut Wilson

November 1, 2023

In a highly anticipated decision, the Federal Reserve maintained its benchmark interest rate at 5.25% to 5.50% but noted a strong economy, a robust labor market, and persistently high inflation exceeding the central bank's target.

The post-meeting statement included an upgrade in the committee's assessment of the economy, noting that "economic activity expanded strongly in the third quarter." This represented a shift from the prior description of the economy growing at a "solid pace." The statement also recognized that employment gains had moderated compared to earlier in the year but remained strong.

Gross domestic product (GDP) expanded at a 4.9% annualized rate in the third quarter, surpassing expectations, and nonfarm payroll growth in September reached 336,000, exceeding Wall Street's projections.

Apart from these changes, the statement highlighted the tightening of both financial and credit conditions. This adjustment was made in response to concerns about the surge in Treasury yields. The statement underlined the committee's ongoing assessment of "the extent of additional policy tightening" required to achieve its objectives, with continued scrutiny of additional information and its implications for monetary policy.

The post-meeting statement expressed the Fed's belief in the economy's resilience despite multiple rate hikes, suggesting a potential commitment to a continued tightening approach. While some officials call for evaluating the consequences of past rate increases, the possibility of rate cuts appears off the table for the time being.

The Fed's restrictive stance has contributed to surging bond yields, reaching levels not seen since the early days of the 2007 financial crisis. Various other factors driving the surge, include stronger-than-expected economic growth, persistently high inflation, a hawkish Fed, and an elevated "term premium" as bond investors seek higher yields for holding longer-duration fixed-income securities.

The issuance of Treasury debt to finance the substantial government debt has also raised concerns and played a role in driving up yields. The Treasury Department's announcement of plans to auction $776 billion in debt in the third quarter has added to investor worries.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from November 1, 2023 and September 20, 2023.

CME Fed Fund Rate Probabilities

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
11/1/2023			0.0%	0.0%	0.0%	0.0%	0.6%	99.4%	0.0%	0.0%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	77.4%	22.1%	0.0%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	67.9%	28.9%	2.7%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	11.2%	61.7%	24.8%	2.3%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	4.6%	31.9%	46.5%	15.5%	1.4%
6/12/2024	0.0%	0.0%	0.0%	0.0%	2.4%	18.8%	39.5%	30.4%	8.2%	0.6%
7/31/2024	0.0%	0.0%	0.0%	1.4%	12.1%	31.0%	34.1%	17.3%	3.7%	0.3%
9/18/2024	0.0%	0.0%	0.9%	7.7%	23.3%	32.9%	24.2%	9.3%	1.7%	0.1%
11/7/2024	0.0%	0.4%	4.4%	15.7%	28.2%	28.4%	16.6%	5.4%	0.9%	0.1%
12/18/2024	0.3%	2.9%	11.6%	23.7%	28.3%	20.9%	9.4%	2.5%	0.4%	0.0%

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