

Fed cuts rates by quarter of a percentage point, gives mixed signals on next move

By Howard Schneider and Ann Saphir

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The U.S. Federal Reserve cut interest rates again Wednesday to help sustain a record-long economic expansion, but signalled a higher bar to further reductions in borrowing costs, eliciting a fast and sharp rebuke from President Donald Trump.

The Fed's move to lower borrowing costs stands in contrast with the Bank of Canada, which held its trend-setting overnight interest rate steady earlier this month as it gauges the extent deepening trade conflicts may have on the economy. Markets are pricing in little chance Canada's central bank will budge on rates the rest of this year.

Describing the U.S. economic outlook as "favourable," Fed Chair Jerome Powell said the rate cut was designed "to provide insurance against ongoing risks," including weak global growth and resurgent trade tensions.

"If the economy does turn down, then a more extensive sequence of rate cuts could be appropriate," Mr. Powell said in a news conference after the Fed announced it had lowered its benchmark overnight lending rate by a quarter of a percentage point, to a range of 1.75 per cent to 2 per cent. It was the second Fed rate cut this year.

But, Mr. Powell said, "what we think we are facing here is a situation which can be addressed, which should be addressed, with moderate adjustments to the federal funds rate," mentioning that the U.S. labour market was strong and inflation was likely to return to the Fed's 2-per-cent annual goal.

"We are going to be highly data-dependent. ... We are not on a preset course, we are going to be making decisions meeting by meeting," Mr. Powell said, adding that the Fed would stop

cutting rates "when we think we've done enough."

Mr. Trump blasted Mr. Powell, saying the central bank chief had "No 'guts,' no sense, no vision!"

"A terrible communicator," Mr. Trump tweeted before Mr. Powell had even begun his news conference.

Underscoring divisions within the central bank, the quarter-point rate cut Wednesday drew dissents from three of the 10 voting policy-makers.

Kansas City Fed President Esther George and Boston Fed President Eric Rosengren called for no rate cut, and St. Louis Fed President James Bullard wanted a bigger half-point rate cut.

Forecasts from all 17 policy-makers released at the end of the meeting showed even broader disagreement, with seven expecting a third rate cut this year, five seeing the current rate cut as the last for 2019 and five who appeared to have been against even Wednesday's move.

The central bank also widened the gap between the interest it pays banks on excess reserves and the top of its policy rate range, a step taken to smooth out problems in money markets that prompted a market intervention by the New York Fed this week.

In a hint that the Fed may soon take bigger steps, Mr. Powell acknowledged that strains in funding markets had been bigger than expected, and he said the central bank may need to resume increases to the Fed's balance sheet "earlier" than previously thought.

U.S. stocks, lower ahead of the statement, extended their losses and the U.S. Treasury

yield curve flattened. The 10-year Treasury note yield inched up to 1.79 per cent.

The dollar gained ground against the euro and yen.

“Another rate cut from the Fed to try to shield the U.S. economy from global headwinds,” said Joe Manimbo, senior market analyst at Western Union Business Solutions in Washington. “Today’s move was more of a hawkish easing in that the Fed’s median forecasts for rates suggested no more cuts this year, while some officials dissented.”

Still, traders of interest-rate futures were betting on one more quarter-point rate cut this year.

New projections showed Fed policy-makers at the median expected rates to stay within the new range through 2020.

“There is a lot of uncertainty” around rate-path views and the economic outlook, Mr. Powell said.

There was little change in policy-makers’ projections for the economy, with GDP growth seen at a slightly higher 2.2 per cent this year and the unemployment rate to be 3.7 per cent through 2020. Inflation is projected to be 1.5 per cent for the year, below the Fed’s 2-per-cent target, before rising to 1.9 per cent next year.

The Fed also cut rates in July, the first such move since 2008, as it responded to risks from Mr. Trump’s trade war with China and other overseas developments.