

# Morning Market Tidbits

## If not March, why not May?

### In focus

Following the January FOMC meeting we took a March cut out of our baseline and shifted the first rate cut to June. However, there is an FOMC meeting in May and it is reasonable to ask, “if not March, why not May?”. Here are our thoughts on the matter.

### One meeting delay sounds reasonable...

On one hand, merely shifting the start of the policy rate normalization cycle back by one meeting would make sense. Powell did sound optimistic on the outlook for returning inflation to 2% and the economy was trending in the right direction. He said more of the same data is needed, not better data. Hence, if the message is that the Fed is close, but not quite there, one could reasonably argue for a one meeting delay instead of two as we expect.

### ...but June is still more likely

There are two reasons we think action in June is more likely than May (predicated on a skip in March). First, the Fed will only see one set of employment and PCE inflation reports between the March and May FOMC meetings. While it is true the official February PCE report arrives on March 29, after the March FOMC meeting on the 20<sup>th</sup>, the Fed will have the CPI and PPI reports for February in hand before the March FOMC meeting and they will be able to infer with a high degree of accuracy where February PCE inflation will stand. Even though it arrives during the blackout period, this data will be part of the March meeting debate. One additional inflation and employment report doesn't seem like it would be enough to move the needle on gaining confidence.

Second, given that (1) this would be the first rate cut, (2) the beginning of the rate cut cycle, (3) and the Fed appears to want to move gradually on an every-other-meeting basis, it would better to begin on an SEP meeting than non-SEP meeting (a SEP meeting is when the committee releases a new set of Summary Economic Projections, which happen four times a year on the quarter). The chair could explain the policy decision more clearly by referring to participants' views on the outlook and the appropriate policy path. Having the “dots” to explain forward guidance is not an absolute necessity, but it certainly helps. Information on the pace and cumulative cuts from the median participant would help place any policy decision in greater context.

### SEP more important than non SEP

The risk is that opting to cut for the first time in May without a new set of forecasts in hand could lead markets to expect cuts at every meeting. The absence of the dots would leave too much uncertainty and place too much weight on the press conference, which, as we just saw, can lead to surprises. Starting the rate cutting cycle in May and cutting every other meeting would leave them perpetually off the SEP cycle during a most unusual easing cycle where the Fed is trying to make policy less restrictive, not easy. Forward guidance is arguable more important than the actual policy decision when a rate cut is implemented. Not all FOMC meetings carry equal importance and, in our view, SEP meetings are more important than non-SEP meetings.

*(Continued on next page)*

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GDP: Gross Domestic Product

FOMC: Federal Open Market  
Committee

ECB: European Central Bank

BoJ: Bank of Japan

NIRP: Negative Interest Rate Policy

YCC: Yield Curve Control

QT: Quantitative Tightening

SEP: Summary of Economic  
Projections

That said, this is supposedly a data dependent Fed and we think the data is likely to support rate cuts sooner than later. May cannot be fully taken off the table, but for the reasons stated above we think action in June is more likely than May if the Fed skips March.

## Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Hang Seng and the Nikkei were down 0.3% and 0.1% respectively. On the flipside, the Indian Sensex closed flat, while the Korean Kospi and the Shanghai Composite rose 1.3% and 1.4% respectively.

As of 7:00 am ET, aggregate European stocks are down 0.2% and S&P500 futures are flat. In the bond markets, 10-year Treasury yields are up 3bp to 4.13% and German Bund yields are up 2bp to 2.31%. The dollar index is down \$0.16 to \$104.05. WTI crude oil prices are \$0.58 higher at \$73.89/bbl, and gold prices are at \$2034.17/oz.

## Data preview

February 7<sup>th</sup>

Trade Balance

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
2/07/24	7:00	MBA Mortgage Applications	Feb 2	—	—	-7.2%
2/07/24	8:30	Trade Balance	Dec	-\$61.8bn	-\$62.3b	-\$63.2b
2/07/24	15:00	Consumer Credit	Dec	—	\$16.5b	\$23.8b

Source: Bloomberg, BofA Global Research

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## US GDP Tracking

### Exhibit 1: BofA US GDP tracking estimate (% q/q saar)

4Q US GDP tracking remains at 3.5% q/q saar largely due to the upward revisions in December payrolls offset by the lower-than-expected print for manufacturing inventories and core capital goods orders and shipments in December

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
1/25/24	4Q (A) GDP	<b>3.3</b>	<b>2.7</b>	<b>2.8</b>	<b>1.1</b>	<b>3.2</b>	<b>1.0</b>	<b>2.1</b>	<b>3.3</b>	<b>6.3</b>	<b>1.9</b>	<b>-908.2</b>	<b>82.7</b>
2/1/24	Construction Spending	<b>3.5</b>	<b>3.0</b>	2.8	<b>1.5</b>	<b>5.8</b>	1.0	2.1	<b>4.1</b>	6.3	1.9	-908.2	82.7
2/2/24	Payrolls	3.5	3.0	2.8	<b>1.9</b>	5.8	1.0	2.1	4.1	6.3	1.9	-908.2	82.7
2/2/24	Factory Orders	3.5	3.0	2.8	1.9	5.8	<b>0.9</b>	2.1	4.1	6.3	1.9	-908.2	<b>80.7</b>
	GDP tracking	3.5	3.0	2.8	1.9	5.8	0.9	2.1	4.1	6.3	1.9	-908.2	80.7
	Contribution to GDP growth (pp)			1.9	0.1	0.2	0.0	0.1	0.7			0.4	0.1
	BofA official GDP forecast	1.5	2.5	2.0	1.0	3.5	2.5	2.5	2.0	2.5	2.0	-929.0	29.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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## Overseas data

### Germany

Industrial production was down 1.6% mom in December, well below consensus expectations of a 0.5% decline. Our Europe economists note it is unusual for factory orders to surprise strongly to the upside, with output still surprising to the downside. That is probably symptomatic of few big ticket items creating noise in orders and companies engaging in production smoothing.

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