

Instant Thoughts

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Marco Lau

Treasury Research Manager

marco.lau@shacombank.com.hk

+852 2841 5450

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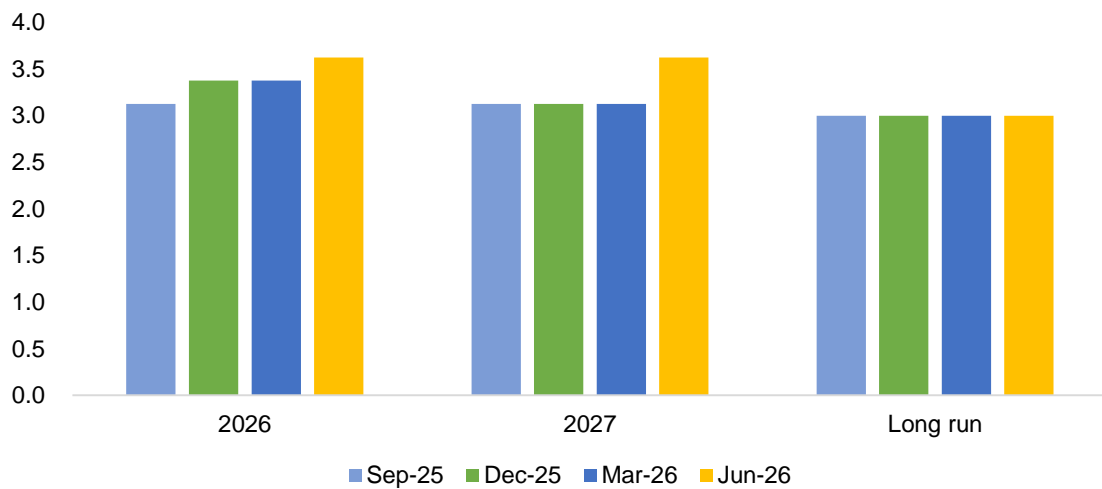
Deal Done, Hikes None?

- The median dot, which anticipated a 25bp cut at the March meeting, moved up in a hawkish direction to no cuts this year without Warsh's stamp.
- The 2027 median dot points to a hold next year. We are hesitant to label it as dovish, since the pivot towards a hike in 2027 requires a total surrender from almost all centrists and doves. It is simply too much for one meeting.
- What we have learned is that, the hawks are getting more hawkish and some reluctant doves feel relieved to be able to express their inflationary concern. September is live and will emerge as a tradeable event, we believe.

Credibility, once lost, is brutally hard to win back, and Fed Chair Warsh is smart enough to know what he should avoid saying. In a statement trimmed back toward a 1990s-style format, Chair Warsh dropped the line that "in considering the extent and timing of additional adjustments," an easing bias that sent three hawkish voters to dissent in April. We believe the market will overlook this change, given it is more procedural than a revelation of Warsh's personal stance. Clear as day, Warsh has little incentive to ruffle hawks' feathers on day one. He concluded, "I can't give you any guidance on what we're going to do next."

The median dot, which anticipated a 25bp cut at the March meeting, moved up in a hawkish direction to no cuts this year without Warsh’s stamp. The U.S.-Iran peace deal hands non-Warsh FOMC a convenient cover to stay put. Being said that, the 2027 median should carry as much weight as the 2026 median. Rather stunningly, the 2027 median dot points to a hold next year. We are hesitant to label it as dovish, since the pivot towards a hike in 2027 requires a total surrender from almost all centrists and doves. It is simply too much for one meeting.

Exhibit 1: Median Rate Forecast (%)



Source: Federal Reserve, Shanghai Commercial Bank

The central cohort can’t shake the feeling that the disinflation trend is interrupted, not reversed. What we have learned is that, the hawks are getting more hawkish and some reluctant doves feel relieved to be able to express their inflationary concern. September is live and will emerge as a tradeable event, we believe.

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