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BONHÔTE

Fed slashes benchmark policy rate

Last week was marked by the Fed's massive half-point rate cut – the first time it lowered rates since March 2020. The new benchmark range is now 4.75-5.00%. This decision also calls the tune for other central banks' monetary policies. The ECB had cut by a quarter-point on 12 September but could be forced to do more next month. Similarly, the SNB is in a quandary in its fight against the strongly valued Swiss franc as it will be effectively forced to cut interest rates at its meeting on Thursday.

Fed has reshaped monetary policy horizons for other central banks

In his speech, Chairman Powell reassured listeners about the health of the US economy, but also about the Fed's chosen timing, as inflation now appears to be under control and a soft landing for the economy is the prevailing assumption. However, some would argue that this rate cut shows that the Fed is worried about easing too late and has acted decisively to support the economy and allay fears about the recent weakening in the labour market. Powell was also keen to emphasise that this half-point reduction was not indicative of the scale of future cuts. The median projection for monetary policy adjustments implies two further cuts of 25 basis points (bp) by the end of the year and a total of 100bp in 2025. Meanwhile the market is anticipating -65bp between now and the end of the year, so could be disappointed. But it is still possible that a consensus will be reached by the end of the year.

Economic stats last week backed up the Fed's decision, with retail sales rebounding unexpectedly during August (up 0.1% month-on-month against a forecast 0.2% dip). Excluding motor vehicles, fuel, building materials and catering services, retail sales rose by 0.1%, following a 0.4% increase in July and a forecast 0.2% rise. This figure is the most closely aligned with the household consumption component used to calculate GDP. On the supply side, both industrial and manufacturing output rose significantly more than expected in August month-on-month, following declines in July.

On the yield front, short-dated US government bonds (T-Bonds) benefited the most from this rate cut, allowing the yield curve to steepen. The US 2-year yield was 3.60% and its 10-year counterpart was 3.74%. The dollar weakened against a basket of currencies while gold set more record highs.

US dollar softer against a basket of currencies

Year-on-year inflation slowed in the Eurozone in August. The harmonised consumer price index (HCPI), calculated using Eurostat methods, slowed to 2.2% year-on-year last month from 2.6% in July. The composite PMI pointed to a contraction in overall economic activity, falling below 50 points (48.9 points compared with 50.5 forecast and 51.0 previously).

US markets saw these data releases in a positive light to end the week higher. The S&P 500 gained 1.62%, while the Nasdaq ended up 1.49%. In Europe, the mood was more subdued, with the Stoxx Europe 600 and the SMI edging down by 0.33% and 0.86%, respectively.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.85	0.95	11'934.07	4'871.54	18'720.01	7'500.26	8'229.99	5'702.55	17'948.32	37'723.91	1'106.44
Trend	➡	➡	⬇	➡	➡	➡	➡	⬆	⬆	⬆	⬆
YTD	0.65%	0.93%	7.15%	0.91%	11.75%	0.68%	-0.59%	1.23%	2.02%	12.73%	1.88%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The SMI is trading on its support amid an underlying downtrend. The next key support is 11805, while resistance is still located at 12085.

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