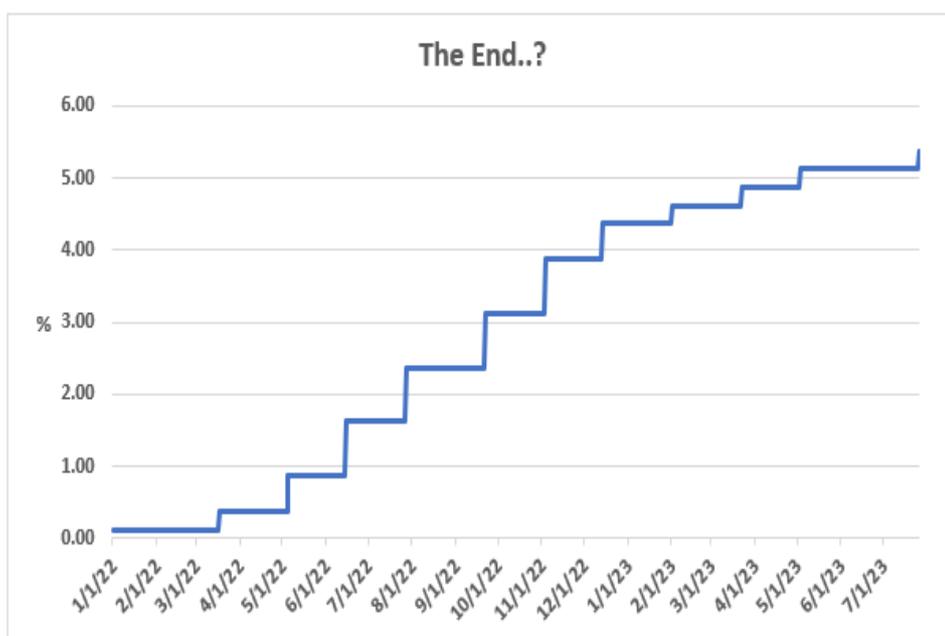


## US interest rates - the Fed adds another 0.25%

Synopsis: US Rates hit a 22 year high.

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To nobody's great surprise, after June's pause, the US Federal Reserve raised its Fed funds rate to 5.25%-5.50% on 26 July. It was the eleventh increase, taking the rate to a level last seen in January 2001.

The Fed's statement was almost identical to the one it issued in June. In terms of future rate movements, the words were the same: 'In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments'.

That 2% target figure is not CPI, which fell to 3% in June, but core Personal Consumer Expenditure (core PCE) which was running at 4.6% in May (June's data arrives on 28 July and is likely to still be at least 4%).

In the post-announcement press conference, Jerome Powell, the Fed Chair, said that the Fed's rate setters did not see 2% core PCE inflation arriving until 2025. It may even be that July's annual core PCE number is higher than June's because of base effects – between June 2022 and July 2022 core PCE rose by just 0.08% (and plain vanilla CPI dropped by 0.01%).

What the Fed does next remains the big question. It will be eight weeks before the Fed's next decision, so there will be two months' supply of fresh data for it to consider when it meets. As of yesterday, the markets were suggesting a roughly even chance of one more 0.25% increase before the end of 2023 – but probably

not in September. Thereafter the Fed futures market data suggest a steady decline to 4% by the end of 2024.

**Comment**

The Bank of England will make its rate announcement on 3 August. It is set to follow the Fed with a 0.25% rise – June’s better than expected inflation figures have dampened down talk of another 0.5% hike.

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