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# Economic News

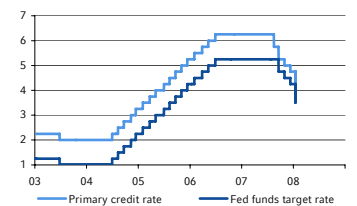
## TODAY'S FED KEY RATE DECISION

### Fed: dead cat bounce?

In response to the steep losses in the equity markets triggered by fears of a recession in the US, the Fed today – one week before its regularly scheduled FOMC meeting – lowered the key rate by a surprising 75bp to 3.5%.

- Although there was some rumours in the markets, the Fed today cut both its fed funds target rate and discount rate by a surprising 75bp. In explaining its non-unanimous decision, the Fed cited the deterioration of financing conditions, deepening housing contraction and softening labour markets.
- The last time the Fed enacted an **emergency rate cut** was on 17 September 2001, shortly after the terrorist attacks. That the Fed resorted to such an unusual measure reveals that its concerns are considerable, not least of all in terms of downside risks to growth. In terms of the economic outlook, however, it is of little consequence whether key rates are lowered one week earlier or later. The timing of the rate move, which came just one hour before the US stock markets opened, was designed to calm the jittery markets.
- The Fed sees inflation receding slightly in the coming quarters – although **appreciable downside risks** to growth remain. Accordingly, it will keep a close watch on further developments and act in a timely manner as needed. It cannot be entirely ruled out that the Fed will ease rates further at its regularly scheduled FOMC meeting next week. In particular, if the equity markets should continue their downward slide, the Fed can be expected to deliver another rate cut of 25-50bp.
- We have adjusted our **key rate forecast** accordingly and now expect additional rate cuts to 2.5% by June. Together with the expected fiscal policy stimulus, this should be enough to put the US economy back on track towards the end of the year.
- **Equities:** The 75bp emergency rate cut by the Fed failed to quell the current panic in the equity markets. As a 75bp cut was already priced in and thus broadly expected, equity markets fell back to their previous levels just minutes after the rate action was announced. In addition, there was negative corporate newsflow from the USA. Thus, uncertainty continues to plague the equity markets, as evidenced by significantly higher risk premiums and volatility. The markets are currently driven by a strong emotional risk assessment level. The latest rate move has not yet expedited a change in regime back to a more rational and fundamental market assessment. Concerns about US growth and the financial market crisis should remain the determining factors for the time being and are likely to continue to lead to high levels of uncertainty and above-average volatility.

US key rates  
in %



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