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# Economic News
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# Fed inter-meeting rate cut – Europe on hold

**These are exceptional times for the markets, matched by exceptional measures by the Federal Reserve which delivered a 75bp cut in the Fed Funds rate, to 3.5%,** a week before the scheduled Meeting, on Jan 30th. The policy statement suggests that *'The Committee took this action in view of a weakening of the economic outlook and increasing downside risks to growth. While strains in short-term funding markets have eased somewhat, broader financial market conditions have continued to deteriorate and credit has tightened further for some businesses and households. Moreover, incoming information indicates a deepening of the housing contraction as well as some softening in the labour market... The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully...Appreciable downside risks to growth remain'.* In the wake of recent market moves, today's policy action will not be a total surprise; in fact, there had been speculation of a possible Fed rate cut in late Asia/early European sessions. The Fed decision, coupled with last week's fiscal stimulus announcement, shows strong commitment from the US authorities to try and address the current market distress and associated downside growth risks. In theory this should be reassuring news; the real test today will be to see whether this is enough (some were talking a larger 100bp cut) to restore some kind of confidence in the market.

**So this was a solo action, with no policy action from the ECB or the BoE.** Certainly, the market environment of the past few days and the pro-active Fed policy approach will put increased pressure on the ECB to at least abandon a hawkish rhetoric. As we pointed out in our morning note, conditions have changed dramatically of late and even from an ECB perspective, this is not the time to worry about inflation. It has been 10/10 from a policy management perspective in the Eurozone so far, but this is a crucial point and the time has now come to at least adjust the language. Failing to do so would risk to hit credibility. So for now, the hawkish ECB rhetoric/aggressive Fed policy actions are proving euro supportive, but should Euro data start to turn more negative and the ECB be perceived as being behind the curve, it could be a different story and perhaps not such a euro bull world anymore. Not today's trade though.

As for the BoE, today's Fed rate decision will add pressure on the BoE to cut interest rates by a more aggressive 50bp at the February MPC Meeting. Note that BoE Governor King is speaking tonight (19.00), an opportunity to signal how dovish the MPC is at the moment. Domestically, the case for a more aggressive BoE policy action has strengthened of late (see late mortgage figs), but we have a few more data to digest before the February 7th meeting. Just like for the ECB, there is a risk that at some stage, the BoE is perceived as being behind the curve on the easing front (and this means that there will be some catching up to do at a later stage), so any post Fed Cable strength is probably a good selling opportunity.

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