

## Fed's monetary policy: Rates unchanged in the first half of 2024

- Despite the Committee decided to maintain the reference rate's upper range at 5.5% and a marginally less hawkish bias in its communication, our NLP model continued to rank the semantics of today's statement with the central topic congruent with a terminal rate of 5.25%
- The model anticipated a terminal rate of 5.25% since July 2022
- The Fed's written communication was consistent during the current tightening cycle. However, the congruence between the language used and the monetary policy decisions has been lost since July 2023
- We expect that the officials will make the first rate cut in the second half of the next year

**Fed's topics classification using NLP and ML techniques.** In July 2022 we published a research note where we described a model using natural language processing (NLP) techniques that classify and interpret the FOMC statements. In addition, it also **provides a methodology to confirm whether the communication made by the Central Bank is consistent with the monetary policy implemented** (refer to: [Welcome to the Machine \(Learning\): An NLP framework for analyzing the Fed's monetary policy statements](#)).

The relationship between the Fed funds rate and the semantic classification obtained was also analyzed. In this regard, the most important finding in our research note was the degree of strength in the relationship between the Fed funds rate and the semantic classification obtained, given that the latter can explain 9 out of 10 rate movements. The model also defines the range of variation of the terminal reference rate (refer to Chart 1).

**The Fed's semantics continues indicating a terminal rate of 5.25%.** Despite the Fed decided to maintain the reference rate's upper range at 5.5% and a less hawkish bias in its communication, our NLP model continued to rank the semantics of today's statement with the central topic congruent with a terminal rate of 5.25% (upper range; Topic 8 in Chart 2). It is worth noting that this topic has been the dominant one since the Fed began its hiking cycle in March 2022. In this context, our model continues to exhibit strength in the classification of statements by anticipating the terminal rate at 5.25% since July 2022.

We highlight that our model only considers the semantic within the FOMC statements and it does not take account the economic projections. Given that the Fed's written communication has been consistent since the beginning of the current tightening cycle. However, the congruence between the language used and the monetary policy decisions has been lost since July's statement.



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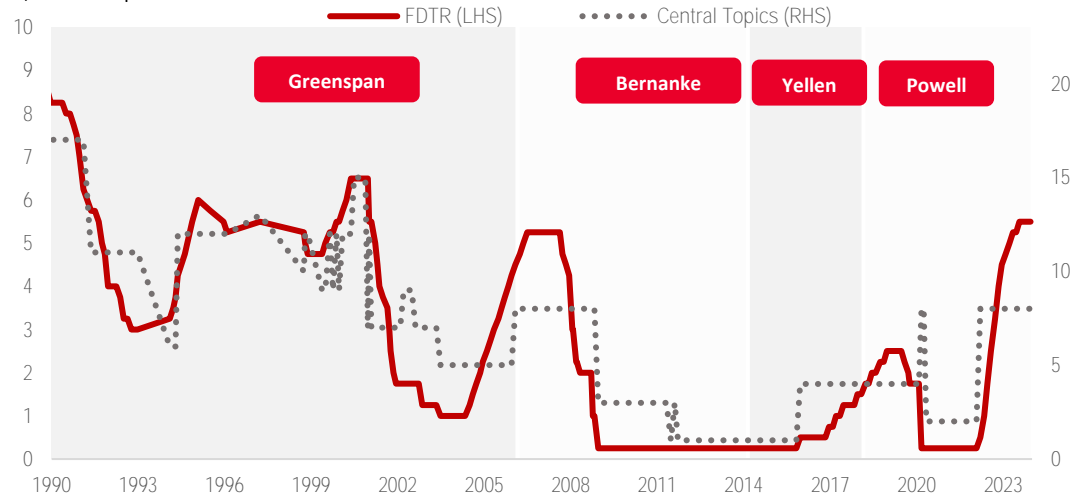
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**We expect that the officials will make the first rate cut in the second half of the next year.** Although the Fed's written communication has been hawkish, we consider that the current rate hiking cycle is over. Therefore, we estimate that the Fed will make the first cut at summer meetings in 2024. However, it is worth noting that the tone of the press conference was more hawkish than the statement, and that reduction will be subject to the inflation and employment reports that will be released during the first half of the next year.

**Chart 1: Banorte's Fed Topic Index vs Fed Funds (upper range)**

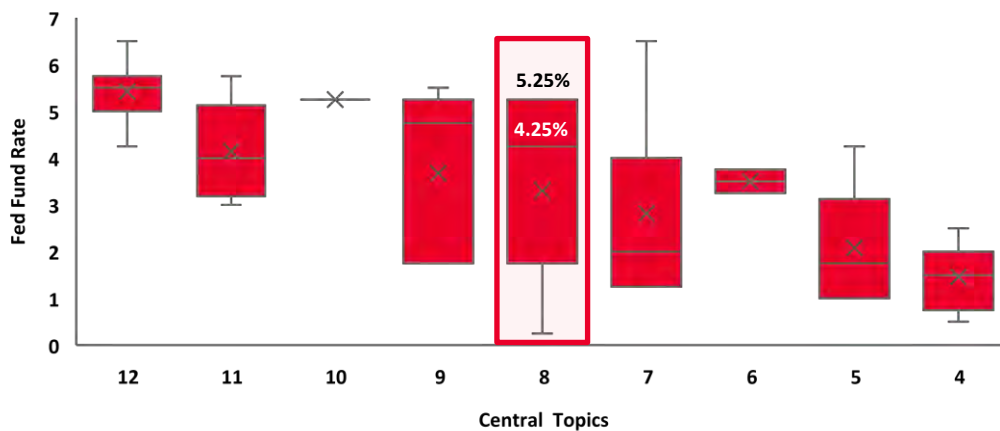
%; Central Topics



Source: Banorte, Federal Reserve

**Chart 2: Range of Fed Funds Rate by Topic**

Central Topics



Source: Banorte, Federal Reserve

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Paula Lozoya Valadez, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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