

September 18, 2024

Fed's monetary policy: We expect two more 25 bps cuts by the end of 2024

- Following today's monetary policy statement, in which the committee decided to lower the target range for the federal reference rate by 50 bps
- Our model suggests that the terminal rate of the Fed's easing cycle (upper range) could stand at 2%
- We expect two more 25 bps cuts at the two remaining meetings this 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 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 correlation 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 allude to a terminal rate of 2% for the easing cycle. The Committee decided to lower the target range for the federal funds rate by 50 bps point to 5% (upper bound). Powell showed a significantly more dovish bias in his speech following the monetary policy announcement. Nevertheless, the model continues to rank the semantics of the statement with the central topic alluding to the tightening monetary cycle of 2023 (Topic 8 in Chart 2). We highlight that this topic has been the dominant one since the Fed began implementing its current tightening monetary cycle in March 2022.

In this regard, the same topic can give us an estimate of the terminal rate for Fed's easing cycle. Taking the 1st quartile for the monetary policy rates included within this topic, we forecast that the upper bound for the terminal rate will stand at 2% (refer to Chart 2).

We expect two more 25 bps cuts by the end of 2024. We highlight that in today's press conference, Powell was significantly more dovish than in July's meeting. He mentioned that economic indicators provided support for the decision to cut the target range by 50 bp. In the following months, the committee will evaluate the possibility of further easing. In this context, Powell rejected the possibility of making additional 50 bps cuts in the remaining meetings of the year. In this regard, and considering Powell's more dovish rhetoric, we expect two additional 25 bps cuts in the rest of 2024.



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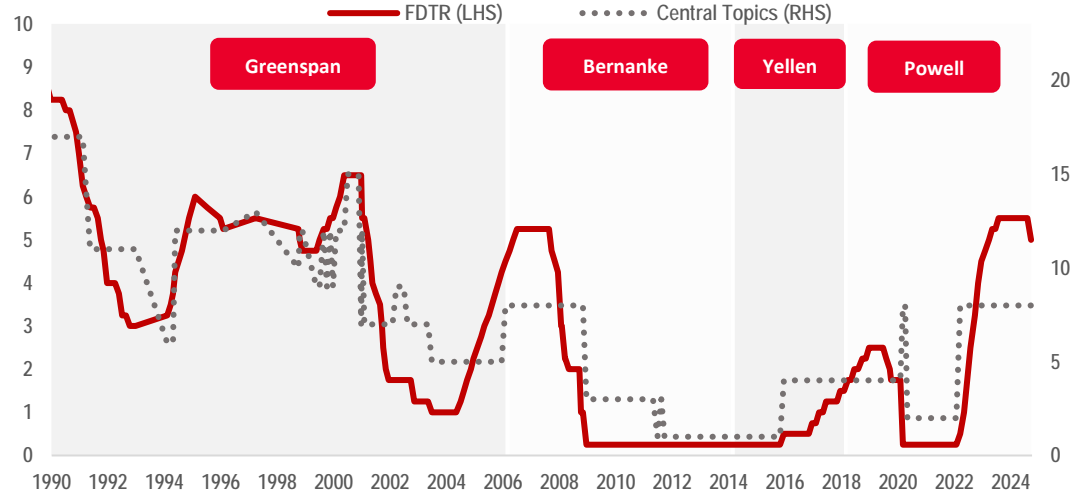
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Winners of the award as the best economic forecasters in Mexico by LSEG in 2023



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

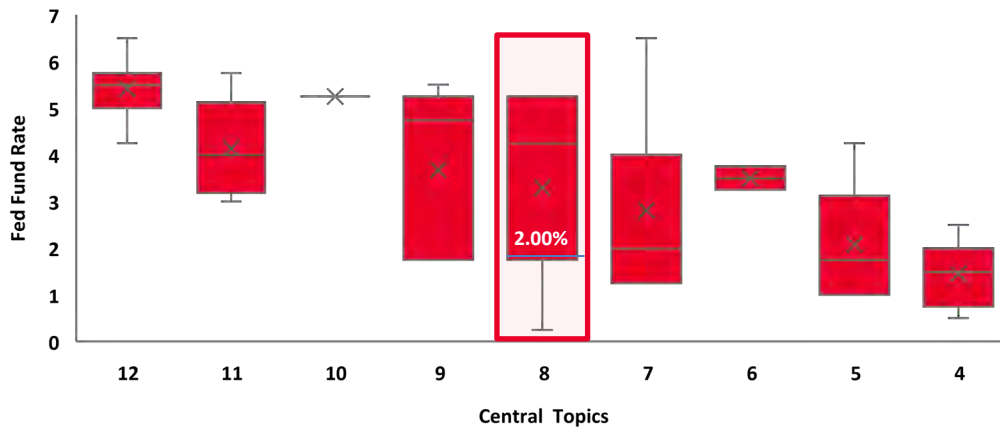
%; Central Topics



Source: Banorte, Federal Reserve

Chart 2: Range of Fed Funds Rate by Topic

Central Topics



Source: Banorte

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernández, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, 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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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