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# Dollar, oil, and gold after the Fed's first cut

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**The US easing cycle finally got underway last week, with the Federal Reserve taking a larger first step than other top central banks by reducing rates by 50 basis points. Equity investors have been cheered by the Fed's commitment to supporting economic growth, along with reassurances from Chair Jerome Powell that the risk of a US recession remains low at present.**

The S&P 500 is up 1.7% since its close the day before the Fed policy meeting on 18 September. On Tuesday, it hit its 41st record high in 2024, bringing the year-to-date gain to 20.2%. This is consistent with history: Stocks have tended to perform well in periods when the Fed is easing while the US economy is still growing.

But the Fed's level of success in guiding the US to a soft landing will be important in determining the outlook for other asset classes.

**A growth-friendly monetary policy from the Fed adds to a positive backdrop for oil prices.** Brent crude tends to be helped by an upbeat mood in markets, and sentiment has improved since the decisive start to easing by the Fed. Over the longer term, the Fed's efforts to support economic growth should be positive for oil demand in the US and globally.

Meanwhile, global supply growth has been sluggish, rising by just 0.3% between December and July, according to the International Energy Agency. This has kept the oil market in a deficit. Production growth has slowed in the US, and output has been notably weak in key producers such as Brazil and Libya.

Thanks to the Fed's easing cycle and supportive supply-demand dynamics, we expect oil to rise to around USD 87 per barrel by the end of the year. Hence, we continue to recommend risk-seeking investors to sell crude oil's downside price risks.

**Gold can gain further ground as rates fall.** The precious metal has already gained a boost from the Fed's 50-basis point cut, which lowers the opportunity cost of holding zero-yielding assets. Gold climbed to a fresh record intraday high on Wednesday of USD 2,670 an ounce. At the time of writing, it has rallied close to 29% year to date, putting it on track for its largest annual gain in 14 years. With the median expectation of top Fed officials for a further 150 basis points of easing by the end of 2025, the backdrop for gold should remain supportive, even after such significant gains.

There are several other forces supporting gold. The metal often benefits from safe-haven demand during periods of elevated geopolitical risk. So we expect continued hedging demand amid heightened tensions in the Middle East and uncertainty over the outcome of the US election. In addition, demand for gold from investors, via exchange-traded funds, and from central banks has been strong. Our base case is that gold will trade around USD 2,700 by mid-2025 and could gain further if certain risks materialize.

**While Fed easing supports gold and oil, it should add to pressure on the US dollar.** The dollar has been under pressure for several months. The DXY dollar index, which tracks the US currency against six major peers, is down around 5% since the start of July. While other top central banks are set to reduce rates further—including the European Central Bank, Swiss National Bank, and Bank of England—our view is that the Fed will lower rates at a faster pace than its peers. This will continue to chip away at the US dollar's yield advantage, a key support for the currency over the past two years.

We have long been advising investors to prepare for lower rates, as Fed rate cuts erode returns on cash. We continue to recommend shifting excess reserves held on deposit or in money market funds into more durable sources of income. The start of Fed easing also has broader implications across asset classes, adding to the supportive backdrop for equities, gold, and oil, while adding to headwinds for the US dollar and increasing the incentive for non-USD-based investors to reduce USD exposure, including hedging assets, diversifying internationally, or using options.

Main contributors: Solita Marcelli, Mark Haeefe, Giovanni Staunovo, Constantin Bolz, Jon Gordon, Vincent Heaney

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