KFB Commodity Division Weekly Market Report

August 5, 2024

In this week's report we will focus solely on the U.S. economic situation currently taking place. To start the week, there has been increased volatility and a sharp decline in key market indices like the S&P 500. Additionally, there has been a looming negativity that has brought with it questions like, are we entering a recession? During times like these it can be easy to get caught up in news headlines. Our goal today will be to understand what has brought us to this point and try to better understand what the future might hold.

How did we get here?

Since the beginning of the year, there has been ongoing market speculation on when interest rates will get cut. We started out the year with expectations of several rate cuts, but to this point have seen none. The reason we have seen no cuts is a mix of higher than target inflation and a strong labor market. As of late we have seen inflation slow. This is a good thing, but we haven't reached the Federal Reserve target of 2%. That is why, at the most recent FOMC meeting (July 30-31), it was announced that rates will stay at current levels (525-550 basis points). It wasn't really until last Friday that we started to see panic enter the markets. Why the panic? Nonfarm payrolls, or jobs numbers, came in under expectations and the unemployment rate came in above expectations. This sent a signal to investors that the labor market is weakening. Pair the weaker labor market numbers with no July rate cuts and that is a simplified framework for what has brought us to today.

Where do we go from here?

That is the trillion-dollar question. There is too much to unpack for this short write-up, so let's focus solely on interest rates. As of today, markets are pricing in an 83.5% probability of a 50-basis point cut at the September meeting. That is a substantial cut in rates. The overarching thought is that when a labor market is weak/weakening, rates need to be reduced because consumers need to be incentivized to borrow and spend. While there remains significant unease in the market, more data will be needed to identify a trend. If we continue to see inflation decline, and the unemployment rate increase, look for interest rates to see cuts.

To track the economic data we discuss visit the link here or you can visit the Kentucky Farm Bureau app. Once in the app, go to 'Economic Reports' and click on 'Additional Resources'.