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Central bank convergence?

The Federal Reserve doesn't take its cues from other central banks, but it does pay attention, especially to the European Central Bank. The Frankfurt-based institution is not only arguably the second most important bankers' bank, but also is led by a veteran of the field, Christine Lagarde. In June, the one-time head of the International Monetary Fund oversaw the ECB's first ease of the current cycle when it lowered its main rate by a quarter point to 3.75%. Last week, it passed on cutting again, but Lagarde said another is possible in September: "What we do in September is wide open."

Her comments likely will influence U.S. policymakers when the Federal Open Market Committee meets at the end of this month. A reduction of the federal funds target range from 5.25-5.5% is all but ruled out, but the FOMC also meets in September. At one time, most thought the Fed unlikely to take any policy action before the presidential election to avoid appearing politically motivated. But Chair Jerome Powell has repeatedly said the FOMC focus only on the data. If inflation continues to slip and other metrics suggest the many months of elevated rates have finally cooled the economy in a sustainable manner, both central banks might end up cutting rates in September.

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