PREVIEW: FOMC rate decision & SEPs due Wednesday, 20th September 2023 at 19:00BST/14:00EDT; Powell Presser/Q&A at 19:30BST/14:30EDT

The FOMC is expected to hold rates between 5.25-5.50% on Wednesday, according to both the market consensus and money market pricing. Traders will be looking to the updated economic projections to see whether the central bank is still working on the assumption that it will hike interest rates once more in 2023, in line with its previous SEP, or whether it now sees rates as having reached terminal. Markets are currently suggesting that the Federal Funds Rate has already reached terminal, though it has assigned around 50/50 chances that we could see another hike this year. Looking ahead, markets are pricing rate cuts next year, with the first fully discounted cut seen in July 2024. Fed officials have been dismissing any talk of rate cuts, and have suggested that rates could be held at terminal levels for an extended amount of time as the Fed continues to try and bring price growth back in line with its target.

HOLD: A combination of softer-than-expected inflation and jobs numbers have given the Fed the leeway to hold rates at this FOMC after hiking at the July meeting in order to assess the impact of cumulative tightening. Many on the Fed will be of the opinion that they are likely done with hikes, but there remain risks of a future hike given the persistence of solid growth in the US and the potential for that to feed into higher inflation. Therefore, the Fed is unlikely to declare it has reached terminal and will be careful not to shift expectations dramatically dovishly, while the 2023 'Dot Plot' is expected to continue to indicate one more hike.

STATEMENT: The statement is expected to be a copy/paste job from the July meeting. SGH Macro's Tim Duy writes, "I don't think the Fed is ready to declare the tightening cycle has definitely ended and it can't really say the risks are "balanced" given that would leave the impression that the next move could be up or down... But the risk is that the Fed shifts the language in a dovish direction by sounding optimistic about recent inflation data or indicating the risks are "more" balanced." For the balance sheet, no changes are expected, with economists expecting the shrinkage to continue even after rate cuts begin.

DOT PLOT: The accompanying SEPs are expected to see the median 2023 rate dot left unchanged at 5.6%, reflecting one more hike this year (albeit many don't expect that to occur), and the other dots left unchanged with cuts continuing to be expected next year to have a 2024-end rate of 4.6% (although there are upward risks to that, more below), reflective of Core PCE falling to 2.6% by then. Meanwhile, the GDP and unemployment dots for 2023 are expected to rise and fall, respectively, amid the above forecast evolution of the growth data.

Bloomberg survey of economist's median dot expectations, including new 2026 dots:

- FEDERAL FUNDS RATE: 5.6% in 2023 (unchanged vs. June), 4.6% in 2024 (unchanged), 3.4% in 2025 (unchanged), 2.6% in 2026, 2.5% in the longer run (unchanged)
- CHANGE IN REAL GDP: 2.0% in 2023 (prev. 1.0% in June), 1.1% in 2024 (unchanged), 1.8% in 2025 (unchanged), 1.8% in 2026, 1.8% in longer run (unchanged)
- UNEMPLOYMENT RATE: 3.9% in 2023 (prev. 4.1% in June), 4.4% in 2024 (prev. 4.5%), 4.5% in 2025 (unchanged), 4.2% in 2026, 4.0% in longer run (unchanged)
- PCE INFLATION: 3.2% in 2023 (unchanged vs. June), 2.5% in 2024 (unchanged), 2.1% in 2025 (unchanged), 2.0% in 2026, 2.0% in longer run (unchanged)
- CORE PCE INFLATION: 3.8% in 2023 (prev. 3.9% in June), 2.6% in 2024 (unchanged), 2.2% in 2025 (unchanged), 2.0% in 2026, 2.0% in the longer run (unchanged).

CUTS: Bloomberg's economist survey sees expectations for the first cut to occur in May 2024, two months later than the same survey back in May, while money markets are currently pricing in the first full 25bp cut from July. Some analysts believe the 2024 rate dot could rise given the later start than initially thought for rate cuts. The timing of cuts is expected to be a key topic Powell will face questions about in his Q&A, and Powell is expected to tread carefully on the issue as not to dramatically skew expectations towards easing given the risks of another hike being required.

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