PREVIEW: FOMC Rate Decision due Wednesday 1st November at 18:00GMT/14:00EDT; Powell Presser/Q&A at 18:30GMT/14:30EDT

The FOMC is all but certain to leave rates unchanged at 5.25-5.50% on Wednesday, so focus instead will fall on the statement and Powell guidance for the December meeting; there are no new SEPs. The statement is expected to look largely similar to September's, and likely maintaining its hawkish-leaning phrase, "*In determining the extent of additional policy firming that may be appropriate...*" While at the press conference, Chair Powell will likely continue to point to tighter financial conditions (higher Treasury yields) as justifying the rate pause despite the pick up in economic growth, and also warning that a further growth pick-up - from already lofty levels - could warrant further tightening.

Money markets and many Fed officials believe that the Fed is done with rate hikes, with the central bank "*proceeding carefully*" to let cumulative tightening continue to work through as inflation trends lower and the labour market rebalances. Fed Chair Powell, in his Economic Club of New York appearance on October 19th, said incoming data over recent months had shown "*ongoing progress toward both of our dual mandate goals", noting that the unwinding of pandemic-related distortions and restrictive monetary policy "are now working together to bring inflation down*", with the Fed Chair seemingly satisfied with current policy settings. Powell didn't take alarm to the hot-leaning September CPI report either, saying, "*the path is likely to be bumpy and take some time*". The speech was gauged as a confirmation of no hike at the November meeting, whilst also seen raising the bar for a hike at the December meeting as the Fed deviates from its September Dot Plot that had one more rate hike pencilled in for this year.

However, the latest economic growth resurgence (the initial Q3 GDP reading spiked to 4.9% from 2.1%) is keeping tail risk skewed toward further hikes in the near term (20% hike probability priced for December currently) as concerns linger over a possible episode of demand-led reflation. Fed Chair Powell said, "*Additional evidence of persistently above-trend growth, or that tightness in the labor market is no longer easing, could put further progress on inflation at risk and could warrant further tightening of monetary policy.*" And while officials have been citing the large move higher in Treasury yields (tightening financial conditions) as reducing the need for further policy hikes, a continued melioration of the economic backdrop could change that. Fed Governor Waller, to wit, "*...if the real economy continues showing underlying strength and inflation appears to stabilize or reaccelerate, more policy tightening is likely needed despite the recent run up in longer term rates.*"

The resilient economic and consumer data has also pushed out pricing for the first full 25bp rate cut back to July 2024, with the few who have brought up the issue noting any rate cuts wouldn't be until late next year. That follows the September SEPs showing the 2024-end median rate dot hiked by 50bps to 5.00-5.25%. A Reuters poll saw 91 of 111 economists surveyed not seeing the Fed cutting rates until at least Q2, where the majority expecting a Fed rate cut by mid-2024 was reduced to 55% from 71% in the prior poll. Fed's Waller, when questioned on the issue, said noone expects any kind of rate cut soon, whilst also saying the Fed needs to see how inflation progresses in the next six-to-12 months and then see about cutting rates.

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