Preview: Federal Reserve Rate Decision, SEPs and Press Conference due Wednesday 18th September 2024

SUMMARY: The Federal Reserve will release its latest rate decision on Wednesday 18th September at 19:00 BST/14:00 EDT, alongside the updated Summary of Economic Projections (SEPs). The focus will lie on the rate decision with market pricing leaning towards 50bps, but the analyst consensus is for 25bps, with recent articles from the WSJ and FT, as well as commentary from former NY Fed President Dudley shifting market pricing since the analyst surveys were released. However, not many analyst desks appear to have revised their calls since these updates, with both JPMorgan and Goldman Sachs retaining their calls (JPM sees a 50bp cut, GS sees a 25bp cut). There will also be attention on the Summary of Economic projections and the statement to gather expectations for the pace of the Fed's easing process, particularly through the year-end. The Bloomberg survey expects the Fed to pencil in the median 2024-end dot at 4.9% (prev. 5.1% in June SEP), while 44% of economists surveyed expect the Fed will tweak the statement to acknowledge the possibility of further adjustments, and 31% expect the Fed would signal the intention to pursue a string of rate cuts and provide guidance on their pace. Attention will then turn to Fed Chair Powell at 19:30 BST/14:30 EDT to explain the Fed's decisions with participants cognisant of any guidance updates from the Chair, and the discussion around 25 or 50bps for September.

RATES: The main question of the Fed's upcoming rate decision is whether the Fed opts to kick off their easing cycle with a 25bp or 50bp rate cut. The latest Reuters poll, released on 11th September, found the majority of analysts expect a 25bp rate cut on Wednesday, with only nine out of 101 looking for a 50bp rate cut. However, since the poll, money market pricing has seen an aggressive re-pricing. According to Refinitiv, 40bps are currently priced in for the upcoming meeting, which implies a 60% probability of a 50bp cut, and a 40% probability of a 25bp cut. Pricing shifted after the release of several media reports signalling that a 50bp rate cut is on the table, including a piece from the WSJ's Timiraos, an FT preview, and remarks from former NY Fed President Dudley. Beforehand, markets were leaning towards a 25bp rate cut after a slightly hotter-than-expected August CPI and PPI report. However, the Fed has made it clear that risks are more balanced, and focus has now shifted more to the labour side of their mandate vs the inflation side. Recent labour market data has shown a cooling in growth, and there are fears downside could escalate ahead. The initial response to the August NFP report (headline 142k, exp. 160k, prev. 89k; unemployment rate 4.2%, exp. 4.2%, prev. 4.3%), saw money markets trading at similar levels to where they are now, but since then Fed speak had not directly indicated a willingness for a 50bp move, while both CPI and PPI were a touch hotter than forecast, seeing the market revert to pricing in 29bps of easing at the September meeting, which implied just a 16% probability of a 50bp cut at the time.

STATEMENT: The statement will also be used to help determine guidance from the Fed. Currently, it reads that "In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." Bloomberg's survey (released 11th September) found that 44% of those surveyed said officials will tweak the statement to acknowledge the possibility of further adjustments. Meanwhile, 31% said the Fed would signal the intention to pursue a string of rate cuts and provide guidance on their pace. One in five economists said the Fed wouldn't change its guidance on further adjustments to policy. Also, given there is a large debate over 25 or 50bps in the market, it will be interesting to see if this range of views is seen among the FOMC, and whether or not there are some dissenting votes on the magnitude of the move. Note, that the majority of those surveyed by Bloomberg expect there to be no dissent, but 16% expect there to be a 25bp cut with some voting for a larger 50bp move instead.

RECENT FED SPEAK: Since the NFP data, NY Fed President Williams declined to say how big the first cut should be, noting he does not have a personal view on 25 or 50bps yet. He also added it is clear that labour market imbalances have eased and that the jobs data is consistent with a cooling economy. Meanwhile, Governor Waller believes the economy's forward momentum means the time has come to begin reducing the policy rates at upcoming meetings and he will be an advocate for front-loading rate cuts if that is appropriate. Meanwhile, the data indicates the labour market is softening, but not deteriorating, and this judgement is important for the upcoming policy decision, however determining the appropriate pace of cuts will be challenging but he is open-minded, and the size and pace of cuts will depend on the data. Neither of the speeches had suggested an explicit openness to a 50bp cut, although there was no dismissal of it either.

SEPS: There will also be plenty of attention on the latest Fed Summary of Economic Projections, particularly when digesting the Fed's guidance. If the Fed were to go ahead with a 25bp move, it would increase the importance of the dot plot for guidance on rate cuts throughout the year-end with money markets currently pricing in 120bps of easing across just three meetings. WSJ's Timiraos highlights that if the Fed were to signal fewer cuts this year, it risks a market pullback that tightens financial conditions, raising borrowing costs at the same time the Fed is reducing short-term rates. Timiraos also highlights remarks from Jon Faust, a former senior adviser to Fed Chair Powell, who said that he thinks several officials will project 100bps in cuts this year, and if that is the case, starting with a 25bp rate cut risks raising questions over why officials expect a larger rate cut later in the year and instead didn't lead with it. Therefore, if the Fed does go ahead with a 50bp move, it may be to get it out the way at the start of the cycle, and perhaps then resume back to normal 25bp increments thereafter - something that could perhaps be signalled in the dot plots. However, the reality will likely be a data-dependent approach and Chair Powell will presumably echo his line that these are not set in stone forecasts. The Bloomberg survey shows what analysts expect the SEPs to be revised to, summarised below (prev. = June SEPs).

Fed Funds Rate

- 2024 (exp. 4.9%, prev. 5.1%).
- 2025: (exp. 3.6%, prev. 4.1%)
- 2026: (exp. 2.9%, prev. 3.1%)
- 2027: (exp. 2.9%)
- Longer run (exp. 2.9%, prev. 2.8%)

GDP

- 2024: (exp. 2.1%, prev. 2.1%)
- 2025: (exp. 2.0%, prev. 2.0%)
- 2026: (exp. 2.0%, prev. 2.0%)
- 2027: (exp. 2.0%)
- Longer-run: (exp. 1.8%, prev. 1.8%)

Unemployment Rate

- 2024: (exp. 4.3%, prev. 4.0%)

- 2025: (exp. 4.3%, prev. 4.2%)
- 2026: (exp. 4.2%, prev. 4.1%)
- 2027: (exp. 4.2%)
- Longer-run: (exp. 4.2%, prev. 4.2%)

PCE Inflation

- 2024: (exp. 2.4%, prev. 2.6%)
- 2025: (exp. 2.2%, prev. 2.3%)
- 2026: (exp. 2.0%, prev. 2.0%)
- 2027: (exp. 2.0%)
- Longer-run: (exp. 2.0%, prev. 2.0%)

Core PCE Inflation

- 2024: (exp. 2.7%, prev. 2.8%)
- 2025: (exp. 2.2%, prev. 2.3%)
- 2026: (exp. 2.0%, prev. 2.0%)
- 2027: (exp. 2.0%)