Preview (updated): FOMC rate decision due Thursday 7th November at 19:00GMT/14:00EST

SUMMARY: The Fed is widely expected to cut rates by 25bps on Thursday, taking the target for the FFR to 4.50-4.75%, in line with money market pricing and analyst forecasts. Attention will be on any updates on the statement to see how the Fed describes the economy after mixed recent data, and of course for any future guidance - but they will likely keep options open. The rate decision takes place two days after the election which saw a Trump victory, with Republicans taking control of the Senate. However, the house is still yet to be determined with it currently too close to call. Nonetheless, the election is not expected to have much impact on the upcoming meeting but it will shape expectations for easing through 2025. The Trump victory is seen as inflationary due to increased spending, tax cuts and the imposition of tariffs, which could see a slower return to the neutral rate. Chair Powell is likely to keep his options open by maintaining a meeting-by-meeting approach with decisions to be directed by economic data. This will likely entail language that the Fed can either slow, accelerate or even pause the easing process depending on how the economy evolves, but a more explicit signal to one of these options would be key.

EXPECTATIONS: The Fed is widely expected to continue with its easing cycle in November with all analysts surveyed by Reuters expecting the Fed to cut by 25bps, in fitting with money markets pricing in a 25bps rate cut with a 99% certainty. This would take the target for the FFR to 4.50-4.75%. The statement will focus on the language the Fed uses to describe the economy with risks now "roughly in balance" and to gauge any future rate guidance. There will be a lot of attention on commentary from Fed Chair Powell in the press conference to see how the Fed expects Trump to influence the economy and the outlook. Powell is likely to maintain optionality when it comes to future rate guidance by stressing a data-dependent, meeting-by-meeting approach. In the September press conference, the Fed Chair said "We can go quicker if that's appropriate. We can go slower if that's appropriate. We can pause if that's appropriate". Any explicit signal to one of these options as a preference would be a key development.

ELECTION IMPLICATIONS: The FOMC's policy announcement will be on Thursday, November 7th, rather than the usual Wednesday update given the Presidential elections on November 5th. Many believe that Trump's proposed policies, including higher import tariffs, increased spending and additional tax cuts, could reignite inflationary pressures - and most think these would be more inflationary than what Harris' policies would have been. Accordingly, election dynamics could sway expectations of the Fed's easing trajectory. Nonetheless, the election shouldn't have too much of an impact on this meeting - but it will likely shape future rate cut expectations, particularly in 2025.

RATES: Analysts expect the Fed will continue its easing cycle with a 25bps rate cut in November, to 4.50-4.75%. Looking ahead, 90% of the analysts surveyed by Reuters see the central bank cutting by another 25bps in December. Money markets are currently pricing around 42bps of rate cuts through the end of the year, suggesting at least one 25bps rate reduction, with a 68% probability of another – vs 80% pre-election. Since the Fed began its cutting cycle in September with a bumper 50bps reduction, economic data has generally pointed to a resilient economy although inflation is still just above target and the latest jobs report was soft (but influenced by hurricanes and strikes). The Reuters poll, released before the election, saw that 80% of the 96 economists polled by Reuters see the Federal Funds Rate target falling to 3.00%- 3.25% or higher by the end of next year, but more than 80% said risks were that rates could likely be higher than they currently expect. Money markets are pricing rates to fall to 3.75-4.00% by the end of 2025, vs the 3.50-3.75% priced before the election. This would still be considered 'restrictive' given the Fed currently estimates the neutral rate is around 2.9%. "Since the start of this year, the median view of Fed officials on the neutral rate has risen from 2.5% to 2.9%, and it is likely that this view can edge up slightly more," SocGen notes, "the more cautious approach, as advocated by most Fed officials, is the appropriate course, particularly as economic evidence shows more strength and perhaps greater challenges in achieving the 2% inflation objective."

RECENT DATA: The October CPI report, on net, was hotter than forecast, while the PPI was more mixed but that left the Core PCE, the Fed's preferred gauge of inflation more in line with expectations, although the core Y/Y was slightly hotter than forecast, maintaining a 2.7% pace in October. The jobs reports since the September FOMC have been mixed, the September report was notably hotter than expected and saw markets start to unwind the probability of another 50bps rate cut after the Fed's 50bps rate cut in September. However, the October report was very soft with chunky downward two-month net revisions. The 12k job additions in October were concerning, although largely impacted by hurricanes and strikes, but the BLS noted it was not possible to quantify the exact impact of such an event. It did stress however that Hurricane Milton did hit during the survey period, and the collection rate was well below average in the establishment survey (NFP), while the household survey (unemployment rate) saw no discernible effect. Note, that the unemployment rate was unchanged at 4.1%, vs the year-end Fed median projection of 4.4%. Analysts at Citi highlight that the report was still softer than expected after correcting for the hurricane and strike effects, and with core PCE running close to target, and ECI slowing to 3.2% annualized, suggests to them that Fed Chair Powell will avoid a hawkish stance and continue to signal the Fed will take rates to neutral, but he may keep options open by signalling either a slowing or acceleration of the pace of cuts.

RECENT FED SPEAK: Fed Chair Powell has guided the market to a 25bps rate cut in November, and a 25bp rate cut in December, providing the economy evolves as expected. This is in fitting with the latest summary of economic projections which has the median year-end rate at 4.25-4.50%. However, the SEPs (released in September) were very mixed with nine pencilling in rates above the median (two pencilled in no further cuts this year, with seven pencilling in just one more cut), nine matched the median, while one member saw rates at 4.00-4.25% by year-end (75bps lower than current levels). The Fed speakers have primarily opted to leave options open and state that meetings will be made on a meeting-by-meeting basis. One of the more interesting comments came from 2024 voter Bostic, who said in October, after the hot September CPI data, that he is totally comfortable with skipping a meeting if the data suggests that is appropriate. However, with the Fed noting that risks are now "roughly in balance" in the September FOMC, it puts more focus on the labour market - which since then has seen a very soft October jobs report, albeit impacted by hurricanes and strikes - but also with chunky two-month net revisions of -112k, implying the labour market is cooling. The Fed is yet to declare victory on inflation with inflation still above target but they have made it clear that they do not want the labour market to soften any further to help correct inflation, thus putting more importance on the jobs market.

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