PREVIEW: Federal Reserve announcement due on Wednesday 18th December

- **FOMC rate decision and updated SEPs due Wednesday 18th December at 19:00GMT/14:00EST, Chair Powell press conference from 19:30GMT/14:30EST.**
- **Central Bank widely expected to cut rates by 25bps to 4.25-4.50%.**
- **Attention will be on any clues for future decisions given concerns on rising inflation risks, with inflationary pressures potentially set to rise due to President-elect Trump's proposed tariffs and tax cuts.**

SUMMARY: The Federal Reserve will release its latest rate decision on Wednesday 18th December at 19:00GMT/14:00EST, alongside the updated Summary of Economic Projections (SEPs). Overall, the Fed is widely expected to lower the Federal Funds Rate target by 25bps to 4.25-4.50%, with the latest Reuters poll showing 93 out of 103 economists expecting this as the outcome. Following the recent commentary and economic data, it is now almost a certainty that the central bank will cut by 25bps, highlighted by money market pricing moving more dovish and pricing in a 96% probability of such an outcome. Regarding the statement and press conference, Goldman Sachs says the focus will be on the relative emphasis the Fed puts on language around either slowing the pace of rate cuts, or that decisions remain on a meeting-by-meeting and data-dependent basis. Nonetheless, GS expects to hear both messages, including an addition to the statement that nods toward a slower pace. Ahead, analysts and market pricing expect the central bank to pause on rates in January, amid some concerns about rising inflation risks, with inflationary pressures potentially set to rise due to President-elect Trump's proposed tariffs and tax cuts. Attention will then turn to Fed Chair Powell at 19:30GMT/14:30EST to explain the Fed's decisions with any clues for guidance ahead but he will not want to front-run any fiscal policy measures from US President-elect Trump.

RECENT FED SPEAK: The dovish shift in market pricing and participants' expectations in the last couple of weeks came in early December after remarks from the influential Governor Waller. The permanent voting member said he leans towards supporting a cut in December and later added there is still 'a ways to go' in reducing the policy rate to neutral and that he expects rate cuts to continue over the next year. Meanwhile, and as expected, Fed whisperer and WSJ's Timiraos over the weekend stated "Investors widely expect a third-in-a-row rate cut this week. Officials are ready to slow—or even stop—lowering rates after that."

RECENT DATA: The US inflation data firmed up expectations for a 25bps cut from the Fed, as overall it was largely seen as benign for the Federal Reserve, with some analysts pointing out that the details of the November release demonstrated progress on some of the stickier components of inflation, such as housing. Meanwhile, the PPI report was hot on the headline metrics, but details underneath signalled a slowing of the Core PCE pace, the Fed's preferred gauge of inflation. The US jobs report saw the headline payrolls bounce back and was largely a function of the end of strikes and a reversal of hurricane effects, while the unemployment rate ticked up to 4.2% and the rate of slack was judged to have increased despite rising wages.

LOOKING AHEAD: After the expected cut on Wednesday, and as previously mentioned, the Central Bank is expected to hold rates steady in January. Goldman Sachs expects the main message to be that the FOMC anticipates that it will likely slow the pace of rate cuts going forward, and GS have revised their forecast for 2025 to eliminate a cut in January. As such, Goldman continues to expect cuts in March, June, and September next year, and now expects a slightly higher terminal rate of 3.5-3.75%. Despite taking out the January cut, Goldman continues to think it is a closer call than market pricing suggests - currently pricing in just 3bps of easing. As a result, the Bank says that both their baseline and probability-weighted Fed forecasts remain somewhat more dovish than market pricing, and one key reason is that they see the risks to interest rates from potential policy changes under the second Trump administration as more two-sided than is often assumed.

SEPs: The Fed will update its quarterly economic projections with analysts expecting a more hawkish set of dot plots with the longer run rate being revised up slightly. Core PCE forecasts are expected to be revised up for 2024 and 2025; Pantheon Macroeconomics states that "the median forecast among FOMC participants for the average Q4 Y/Y rate will rise to 2.8%, from 2.6% in the September, because the M/M increases were bigger than anticipated in both September and October," and adds that "this upside surprise will bolster the case for a pause in January, which is already well made by elevated uncertainty over the incoming administration's economic policy plans." Goldman Sachs expects the median dot to show 3 cuts in 2025 to 3.625%, 2 cuts in 2026 to 3.125%, and a flat path in 2027 at 3.125%, each of which would be 25bps higher than in September. In addition, GS expects the median longer run or neutral rate dot to rise 0.125pp to 3%. Elsewhere, GS expects the economic projections to show a flat 4.2% path for the unemployment rate and a modestly higher path for inflation, reflecting the higher starting point and perhaps in some cases participants' decisions to pencil in a modest allowance for tariff effects even at this early stage.

Summary of Economic Projections Expectations *(prev. = September 2024)

Fed Funds Rate

- **2024**: (exp. 4.4%, prev. 4.4%)
- **2025**: (exp. 3.6%, prev. 3.4%)
- **2026**: (exp. 3.1%, prev. 2.9%)
- **2027**: (exp. 3.1%, prev. 2.9%)
- **Longer run**: (exp. 3.0%, prev. 2.9%)

GDP

- **2024**: (exp. 2.5%, prev. 2.0%)
- **2025**: (exp. 2.0%, prev. 2.0%)
- **2026**: (exp. 2.0%, prev. 2.0%)
- **2027**: (exp. 2.0%, prev. 2.0%)
- **Longer-run**: (exp. 1.9%, prev. 1.8%)

Unemployment Rate

- **2024**: (exp. 4.2%, prev. 4.4%)
- **2025**: (exp. 4.3%, prev. 4.4%)
- **2026**: (exp. 4.3%, prev. 4.3%)

- **2027**: (exp. 4.2%, prev. 4.2%)
- **Longer-run**: (exp. 4.2%, prev. 4.2%)

PCE Inflation

- **2024**: (exp. 2.4%, prev. 2.3%)
- **2025**: (exp. 2.2%, prev. 2.1%)
- **2026**: (exp. 2.0%, prev. 2.0%)
- **2027**: (exp. 2.0%, prev. 2.0%)
- **Longer-run**: (exp. 2.0%, prev. 2.0%)

Core PCE Inflation

- **2024**: (exp. 2.8%, prev. 2.6%)
- **2025**: (exp. 2.3%, prev. 2.2%)
- **2026**: (exp. 2.0%, prev. 2.0%)
- **2027**: (exp. 2.0%, prev. 2.0%)
- **Longer run**: (exp. 2.0%)