PREVIEW: Federal Reserve rate decision and Chair Powell press conference due on Wednesday 29th January 2025

- **FOMC rate decision due Wednesday 29th January at 19:00GMT/14:00EST, Chair Powell press conference from 19:30GMT/14:30EST.**
- **The Central Bank is widely expected to hold rates at 4.25-4.50%.**
- **Attention will be on any guidance for future decisions, where focus will lie to assess when the Fed may start to lower rates again, with the committee continuing to be data dependent and evaluating the impacts of the Trump administration policies.**

SUMMARY: The Federal Reserve is widely expected to hold rates between 4.25-4.50% at its January 29th meeting, highlighted by all 103 economists surveyed by Reuters expecting this outcome and money markets seeing just a 3% probability of a 25bps cut. Looking ahead, money markets are almost fully pricing in two 25bps rate cuts in 2025. Goldman Sachs' baseline forecast also calls for two 25bp cuts this year in June and December and one more in 2026. GS expects inflation to keep falling and they do not expect tariffs to restrain the FOMC indefinitely. However, the desk adds it is hard to have great confidence in the exact timing of cuts, due to the fact it is hard to know how they will choose to navigate tariffs this time. Expectations of two rate cuts this year are fitting with the Fed median projections from December, which will be updated in March.

EXPECTATIONS: The Fed is seen holding rates on Wednesday but further out, via a Reuters survey, 61 out of 103 look for a cut to 4.00-4.25% in March and 65/102 see the Fed cutting rates twice or less this year (vs. 41/97 in December poll). Despite this, at the time of writing money markets are pricing in just 8bps of easing at the March meeting, implying a 32% probability of a 25bps rate cut. For 2025, money markets are fully pricing in 50bps of easing, implying two 25bps rate cuts, with the first one fully priced by June. If the Fed cuts twice this year it takes the FFR to 3.75-4.00%, which is in fitting with the Fed's own projections by the end of this year. On inflation, the December SEPs showed the Fed does not see core inflation falling back to target until 2027, and analysts have suggested that there are inflationary risks from the policies of the new administration. Supporting this, 40 out of 49 economists surveyed by Reuters think inflation in the US is more likely to be higher than expected in 2025, while nine said lower. Given it is almost a certainty that January will see rates left unchanged, focus lies further out to assess when the Fed may start to lower rates again, with the committee continuing to be data-dependent. Regarding the accompanying statement, Goldman Sachs states the Fed might note that the labour market appears to have stabilized but it is unlikely to provide strong guidance about the March meeting or the timeline for further cuts. In Powell’s press conference, desks will listen for hints about whether the expected further decline in inflation in the coming months could open the door to rate cuts. Goldman also adds that focus will be on how strongly the leadership feels that the current level of the funds rate is still “meaningfully restrictive” and not an appropriate stopping point, and how the FOMC intends to navigate uncertainty about potential tariff increases now and their impact on prices later.

RECENT DATA: Since the last Fed meeting, incoming economic data has generally been positive - the December jobs report surprised to the upside, while inflation has cooled. In wake of the hawkish December rate cut, expectations for the Fed have been extremely choppy whereby hot December payrolls metrics saw markets price in just one 25bps rate cut for the year with several banks revising their rate cut projections, with some even expecting no more rate cuts. However, soft inflation numbers thereafter saw pricing reverse the post-NFP hawkishness, also supported by dovish Fed speak from Waller (more below). Ahead of the March 19th rate decision, we will get the January and February jobs and CPI metrics, which will help shape expectations given the Fed's data dependent approach. Note, that the February jobs report will also see the annual revisions be released, which ING highlights are widely expected to see some significant downward revisions.

RECENT FED SPEAK: The notable highlight in recent weeks was Governor Waller, who leant dovish. Waller highlighted the December inflation data was very good and he does not think that March [re. a cut] can be completely ruled out, though data could disrupt this. On cuts, the influential Waller said cuts could start several months from now if current inflation expectations are met, and three or four cuts are possible this year, if data cooperates. Regarding inflation, he believes it will continue to print towards target and he expects the Y/Y stickiness to abate. Waller did acknowledge that he may be a little more optimistic on inflation than his colleagues.

PRESIDENCY: With President Trump now in office, attention will continue to surround how his policies may impact inflation and as such a hold will also allow officials to consider the policies of the new admin. and see if it alters the Fed’s forecasts. On the new Trump admin, there has been a range of views on the Fed. Fed Chair Powell, at the post-Dec FOMC press conference, said some people did take a very preliminary step and incorporated conditional effects of coming policies in their projections. Post-meeting, Daly (2027 voter) said her projections are always about the data, and Goolsbee (2025 voter) said their job is to think through scenarios, and they do not know what new administration will propose, so it is difficult to forecast. Waller does not expect tariffs to produce persistent inflation and thus are not likely to influence views on appropriate monetary policy, while Bowman stated they should refrain from prejudging incoming admin's future policies. Williams said there is a lot of uncertainty around inflation and future fiscal policy, noting his own forecast incorporates how some fiscal policy will impact the economy.