PREVIEW: Federal Reserve Rate Decision due September 17th at 19:00BST/14:00EDT

SUMMARY: The Federal Reserve is widely expected to cut by 25bps at the upcoming meeting to 4.00-4.25%, with a very small probability priced for a larger 50bps rate cut, while only two analysts, out of 107, surveyed by Reuters expect a 50bps move. Within the statement, focus will be on its guidance to see whether this is maintained or if it is adjusted to signal more easing ahead, or whether the FOMC maintains a data-dependent stance. The vote split will also be watched to see if there are any dissenters, and also to see how aggressively Miran pushes for lower rates, while also seeing if any of the hawks prefer to maintain rates. The dot plot will be viewed to see the median rate cut path view on the Fed, particularly through year-end and through 2026, to shape rate cut expectations amid a slowing labour market while inflation remains above target in the face of Trump's tariffs.

EXPECTATIONS: The FOMC is widely expected to cut its target for the Federal Funds Rate by 25bps, taking it to 4.00-4.25%. 105 out of 107 surveyed expect this to be the case, but the remaining two expect a 50bps rate cut. There will also be attention on the vote split, to see if the doves (Waller, Bowman, Miran) vote for a larger than 25bps rate cut. There is also the possibility of some opting to keep rates unchanged before the blackout period. Musalem, Schmid and Goolsbee were reluctant to outright call for a reduction of rates in September as they were waiting for the data. Within the statement, JPMorgan expects the Fed to leave out a clear commitment to lower rates further, and instead maintain its data-dependent approach. Its descriptions of the economy may change, particularly on the labour market, given the July and August NFP reports, and also the large downward revisions to the preliminary benchmark payroll revisions. Note, JPM see a 25bps cut but with 2-3 potential dovish dissenters who would be looking for at least 50bps of cuts. Looking ahead, the desk expects three consecutive cuts from Oct 2025 – Jan 2026.

FED SPEAK COMMENTARY: Fed Chair Powell opened the door to a September rate cut at his Jackson Hole speech, following the weak July jobs report that was met with huge downward two-month net revisions of -258k. Since then, the August jobs report was also soft and cemented expectations for a cut in September. Meanwhile, the preliminary BLS benchmark revisions were revised down drastically, painting an even weaker picture of the labour market. WSJ’s Timiraos highlighted that weak hiring makes it easier for policymakers to agree on a 25bps rate cut at their upcoming meeting, but further muddies the debate over the pace of cuts thereafter. Waller, who has been advocating for rate cuts due to the weakness in the labour market, has suggested that the pace of future rate cuts will be dictated by incoming data. However, Goolsbee (2025 voter) said he had not yet made up his mind, noting he wants to ensure that the services inflation pickup is just a blip. The doves had been arguing before July that the tariff impact would lead to a one-time price increase, and by September, it appears more are taking this approach to the estimated tariff impact, albeit some are still showing concerns. Musalem and Schmid have been on the hawkish side of voters, albeit Musalem said before the blackout he had marked down his inflation risk, and marked up his labour market risk, with the Fed largely looking to dictate monetary policy based on the distances away from its mandate.

FED INDEPENDENCE: US President Trump has been calling for lower rates from the Fed, and he has called for Fed Chair Powell to lower rates, "bigger than he had in mind". The administration has been trying to shake up the Federal Reserve. Once Kugler resigned, also reportedly due to alleged mortgage fraud, Trump announced CEA Chair Miran as a replacement, who has since been confirmed, allowing him to partake in the vote this week. Miran shares the same views as Trump on interest rates, but it will be interesting to see the ultimate rate cut size he votes for. Miran is only set to be at the Fed until the end of January, when Trump will put in a permanent replacement. Perhaps NEC Director Hassett, or former Fed Governor Warsh, both seen as favourites for Fed Chair, alongside Fed Governor Waller. If Powell steps down once his term as Chair ends in May, Trump will be able to appoint another ally to the Fed board. He has also been attempting to fire Fed Governor Cook over alleged mortgage fraud, but the appeals court has blocked Trump from firing her for now, also allowing her to vote at this meeting. Powell will likely get quizzed on Fed independence and his future at the Fed, but he tends to push away these questions, noting he focuses on the Fed's mandate. Nonetheless, it is clear that Trump is trying to get a Republican majority on the board of governors.

DOT PLOTS: The updated Summary of Economic Projections will be used to help shape Fed rate cut expectations through year-end and into 2026, as well as how far away rates are from neutral. It will also be used to see how the Fed thinks its distance to its goals has evolved since June. Inflation has been ticking up, but many on the Fed expect this to be transitory with upside primarily as a response to tariffs. The health of the labour market has deteriorated drastically since June, and even since the last FOMC meeting in July. The unemployment rate has ticked up slightly, but the main focus has been on the pace of payrolls. When accounting for revisions to NFP, the last four months of data have been very weak, with jobs added each month ranging from -13k to +79k. Ahead of the August NFP, Fed expectations of the breakeven employment rate ranged from 30-80k, and three of the last reports have been below the breakeven rate amid a drop in both labour supply and labour demand. Below are the SEP expectations compiled by the Bloomberg survey of 36 economists, with priors from the June SEP report.

Fed Funds

- **2025**: (exp. 3.875%, prev. 3.875%)
- **2026**: (exp. 3.375%, prev. 3.625%)
- **2027**: (exp. 3.125%, prev. 3.375%)
- **2028**: (exp. 3.125%)
- **Longer run**: (exp. 3.125%, prev. 3.00%)

GDP Growth

- **2025**: (exp. 1.4%, prev. 1.4%)

- **2026**: (exp. 1.6%, prev. 1.6%)
- **2027**: (exp. 1.8%, prev. 1.8%)
- **2028**: (exp. 1.8%)
- **Longer run**: (exp. 1.8%, prev. 1.8%)

Unemployment rate

- **2025**: (exp. 4.5%, prev. 4.5%)
- **2026**: (exp. 4.5%, prev. 4.5%)
- **2027**: (exp. 4.4%, prev. 4.4%)
- **2028**: (exp. 4.2%)
- **Longer run**: (exp. 4.2%, prev. 4.2%)

PCE Inflation

- **2025**: (exp. 3.0%, prev. 3.0%)
- **2026**: (exp. 2.4%, prev. 2.4%)
- **2027**: (exp. 2.1%, prev. 2.1%)
- **2028**: (exp. 2.0%)
- **Longer run**: (exp. 2.0%, prev. 2.0%)

Core PCE Inflation

- **2025**: (exp. 3.1%, prev. 3.1%)
- **2026**: (exp. 2.6%, prev. 2.4%)
- **2027**: (exp. 2.3%, prev. 2.1%)
- **2028**: (exp. 2.2%)
- **Longer run**: (exp. 2.1%)