PREVIEW: Federal Reserve Rate Decision due October 29th at 18:00GMT/14:00EDT

- **FOMC rate decision due to 18:00GMT/14:00EDT, followed by Chair Powell press conference at 18:30GMT/14:30EDT.**
- **Fed widely expected to cut rates by 25bps to 3.75-4.00%, with attention on any dissenters.**
- **Focus also on any balance sheet adjustments, with many expecting alterations.**

SUMMARY: The Federal Reserve is widely expected to cut rates by 25bps to 3.75-4.00% at the October confab, and within the rate decision, participants will be eyeing any dissenters, with Governor Miran expected to vote for a 50bps reduction. In recent remarks, he noted that a 25bps pace is too slow, but he does not think moving by more than 50bps increments is necessary. There will also be a focus on any balance sheet adjustments. Rabo Bank notes that the FOMC will likely end the balance sheet runoff, but that is not necessarily the consensus view. While some analysts now expect the Fed to end its balance sheet runoff, citing recent money market turbulence that could threaten interest rate control, some see a gradual wrap-up; others anticipate a full halt, with mortgage bonds likely to continue running off slowly due to housing market conditions. In the following press conference, Chair Powell may not give much forward guidance for December, given the limited data availability. Given the ongoing US government shutdown, there has been a lack of data for the Fed to see, although the recent CPI data was cooler-than-expected, which will be welcomed. In FX, ING wouldn't expect any FOMC-day USD rally to be particularly long-lasting unless the Fed delivers clear hawkish signals, and they expect the broader information flow to point to renewed dollar softness, especially heading into a seasonally weak year-end, with their EUR/USD target for December remaining at 1.20.

EXPECTATIONS: The FOMC meeting is expected to deliver a 25bps rate cut, with a further reduction anticipated in December, according to a Reuters poll. Money markets are more or less fully pricing a 25bps cut and are pricing a very high chance of a December reduction. The October decision is likely to be driven by a softening labour market despite elevated inflation pressures, with policymakers divided between prioritising jobs or inflation. Delayed government data obscures the full economic picture. Ahead, analysts are expecting further rate cuts next year, though there is a degree of uncertainty regarding the magnitude. In the latest SEPs in September, the median view saw 50bps of reductions this year, and a further 25bps in 2026, with the terminal rate at 3.0%. However, money market pricing is sceptical, with 114bps of reductions currently priced in by the end of 2026 from now.

BALANCE SHEET: The Fed is expected to announce changes to its balance sheet programme. Fed Chair Powell suggested that the level of reserves will likely hit an ample level within a couple of months. The Fed's long-standing plan has been to end the balance sheet drawdown once the level of reserves hits an ample level, from the currently abundant amount. The Fed also wants to shift to a Treasury-only balance sheet. As it stands, the Fed allows USD 5bln of maturing treasury holdings to roll off the balance sheet per month, and USD 35bln of mortgage-backed securities (MBS). It may mean the Fed will continue to allow MBS to roll off the balance sheet but start reinvesting all the maturing treasury holdings each month, instead of allowing the USD 5bln to exit the balance sheet. Note, at the end of September, Bowman said that she prefers the smallest balance sheet possible, with reserves closer to scarce than ample - so there may be some dissent on the decision. When the Fed slowed the pace of the balance sheet run-off in March (to USD 5bln per month from 25bln), Waller dissented, opting for the runoff to remain at the then-current pace. Beyond policy signals, short-term money markets have been flashing similar warnings that a balance sheet adjustment may be due. SOFR briefly rose above the upper bound of the Fed funds target range, while demand for the NY Fed's reverse repo facility has plunged — hitting a YTD low of USD 2.4bln on October 24th. Meanwhile, usage of the Fed's repo facility has picked up, suggesting that some participants may be growing tighter on cash.

DUAL MANDATE: Upside inflation risks are seemingly receding, as shown by the latest CPI report, but worries about the jobs market are mounting, which is currently in a "low fire, low hire" economy. ING notes the more worrying issue for the Federal Reserve is the deteriorating jobs market, with ING adding there is a clear chance that the "low hire, low fire" economy becomes a "no hire, let's fire" story. In such a case, it would endanger the "maximising employment" goal of the dual mandate, which could in turn prompt a weaker economy and risk the Fed undershooting its 2% inflation target over the medium to longer term. The September Minutes noted that most participants judged the downside risks to employment had increased, while upside risks to inflation had either diminished or not increased.

RECENT COMMENTARY: With a lack of data since the prior FOMC, the Fed is having to rely on private data to assess the strength of the labour market. However, several on the FOMC have noted that it is harder to judge inflation data without the official releases. The Fed have largely agreed that the situation remains the same as September, while some refrained from committing to an October decision, others have suggested another 25bps cut is likely, in the context of risk management. Many are reluctant to commit to a rate path further than October. The focus still resides on the Fed's mandate and the distance to both goals. Some are still concerned about the above inflation target, particularly regarding service prices, due to it not being sensitive to tariffs, but others are more concerned about the slowdown in the labour market. Many highlight that inflation risks have not increased, while more seem to agree that tariffs will not have a permanent increase on prices. Meanwhile, many on the Fed do highlight that labour market risks have increased.