PREVIEW: Federal Reserve Rate Decision and SEPs due 10th December at 19:00GMT/14:00EST

- **Fed rate decision and SEPs due at 19:00GMT/14:00EST, with Chair Powell's press conference 30 minutes later.**
- **FOMC widely expected to cut rates by 25bps to 3.50-3.75%.**
- **Dissent expected, with a clearly split Committee heading into the meeting.**

SUMMARY: The Federal Reserve is widely expected to cut rates by 25bps to 3.50-3.75%, with Fed money markets currently pricing in an 88% chance of such an outcome, and this comes despite widening divisions among policymakers. The latest cut would follow October's reduction, although Chair Powell cautioned then that a December cut was far from assured and gave an analogy that "driving in the fog, you could slow down". Given the Government shutdown, key data has been delayed, and little has been seen since the prior meeting, but in the following week, we will see the October and November NFP, the November Unemployment rate, and the November CPI. Although markets are heavily pricing in a cut, it is a close call as shown by expected votes (more below), and given this, there is a widely held view that it will be a "hawkish cut". JPM generally agrees with this view and adds that one way this could be conveyed would be for the statement to mimic last year's forward guidance. Last November's statement referenced "In considering additional adjustments..." which was followed by a cut in December, and then the Dec. statement was adjusted to say "In considering the extent and timing of additional adjustments..." which was followed by a pause in rates until September 2025. By reverting to the extent and timing guidance, the Committee could hint at a pause in the coming January meeting. Ahead, Rabo Bank expects the Fed to continue its cutting cycle at least until its estimate of the neutral rate is reached.

HAWKS VS. DOVES: In the October FOMC press conference, Chair Powell noted there are strongly differing views on how to proceed, and that another cut in December is far from assured given inflation risks. Powell added that October's cut was another risk management move, but going forward, it will be different. When speaking on the lack of data [at the time], he said he could imagine that the lack of data affects the December decision and gave an analogy that "driving in the fog, you could slow down". Despite the clear ambiguity from the Chair, it isn't widely felt across the Committee, and economists' calls for further reductions have been underpinned by backing from several Fed officials, including key remarks from NY Fed President Williams, who said a near-term cut could be appropriate. Newsquawk analysis indicates that among voting members, four have explicitly supported cuts (Bowman, Waller, Miran, Williams), one is seen leaning towards a cut (Cook), two have been unclear (Powell, Jefferson), while five are leaning towards a hold (Barr, Schmid, Collins, Musalem, Goolsbee). The divisions mean the meeting could produce the highest number of dissents since the early 1990s, with four or more opposing any reduction, and could even end in a three-way split (dissent to opposite decision, the decision, and a 50bps cut from Miran).

DATA: Due to the prolonged Government Shutdown, there has been a notable lack of key US economic data, which has added uncertainty to the path ahead and has made for a very split Committee, which was further illustrated by the October minutes. In terms of what we have seen as data starts to resume, initial jobless claims have been edging lower, with the last print seeing just 191k, the lowest since Sept. 2022 - albeit there are concerns this was seasonally affected by Thanksgiving. Meanwhile, October JOLTS soared to 7.670mln from August's 7.227mln, and also above September's 7.658mln, which was released alongside the October print. Note, the November and October NFP print will be released on the 16th of December, but there will be no October unemployment rate. Meanwhile, the November CPI will be released on December 18th.

FED CHAIR: If there aren't enough conflicting arguments heading into the December meeting, the 2026 rate outlook is further clouded by President Trump's imminent choice for new Fed chair, which is likely to come in early January. A strongly dovish pick, such as NEC Director Kevin Hassett, who is a hot favourite and closely aligned with Trump's policy stance, would increase the likelihood of additional cuts in 2026.

POWELL PRESSER: At the press conference, Rabobank thinks Powell will probably downplay any dissent as something that follows from a challenging situation with upside inflation risk and downside employment risk. Regarding the January meeting, the Chair is likely to stress that the Fed is data-dependent and makes decisions meeting-by-meeting, but any clear signal Powell provides would be key. When he spoke about December not being a foregone conclusion in October, a strong hawkish reaction was seen at the time.

BALANCE SHEET: There has been some focus on the balance sheet since the prior meeting, whereby the Committee announced they decided to conclude the reduction of its aggregate securities holdings on December 1st. Since then, Waller has said not to perceive the balance sheet staying where it is, noting natural reserve demand will push it up, and it could be as short as a month or a couple of months before it grows again. Meanwhile, NY Fed's Perli noted 'at some point' Fed will need to expand its balance sheet again, and said a technical Fed balance sheet expansion is likely to take place soon. As such, Bank of America predicts an extra move, as well as cutting rates, that approx. USD 45bln in monthly short-term Treasury bill purchases to maintain bank reserves and prevent liquidity issues. Combined with MBS reinvestments, total bill purchases could reach ~ USD 60bln/month. BofA adds, these "Reserve Management Purchases" aren't QE, and aim to keep money markets functioning, not stimulate lending. While critics may see it as money printing, the move could reassure markets amid rising Treasury issuance and concerns about tightening liquidity.

SEPs: Updated Summary of Economic Projections are due; the Reuters poll points to a lack of consensus in the 2026 dot plot, with medians showing two further cuts but significant disagreement driven by fiscal risks, tariff effects, and concerns over Fed independence. Conflicting policymaker signals have also heightened uncertainty. Analysts highlight that there is a wide gap between consumer and market inflation expectations, complicating the Fed's task, and PCE inflation is expected to stay above 2% through 2027. The US economy likely grew 3.0% in Q3, slowing to 0.8% this quarter, and is forecast to average 2.0% in 2026, the Reuters poll found. Wells Fargo expects only minor adjustments to the 2026 outlook, with slightly higher GDP and unemployment and marginally lower inflation. It sees the 2026 median dot staying at 3.375%, although one lower dot could pull it down, with risks tilted slightly to the downside. JPM thinks, as was the case in September, the median participant will pencil in one more cut in each of the next two years. Likewise, JPM doesn't see reason to look for large changes to the economic forecasts and looks for the forward guidance in the statement to reference "the extent and timing" of additional adjustments, a subtle shift to indicate a cut is less likely at subsequent meetings.

SEP PROJECTIONS:

Fed Funds

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

GDP Growth

- 2025: (exp. 1.8%, prev. 1.6%)
- 2026: (exp. 1.8%, prev. 1.8%)
- 2027: (exp. 1.9%, prev. 1.9%)
- 2028: (exp. 1.8%, prev. 1.8%)
- Longer run: (exp. 1.8%, prev. 1.8%)

Unemployment rate

- 2025: (exp. 4.5%, prev. 4.5%)
- 2026: (exp. 4.5%, prev. 4.4%)
- 2027: (exp. 4.4%, prev. 4.3%)
- 2028: (exp. 4.2%, prev. 4.2%)
- Longer run: (exp. 4.2%, prev. 4.2%)

PCE Inflation

- 2025: (exp. 2.9%, prev. 3.0%)
- 2026: (exp. 2.6%, prev. 2.6%)
- 2027: (exp. 2.1%, prev. 2.1%)
- 2028: (exp. 2.0%, prev. 2.0%)
- Longer run: (exp. 2.0%, prev. 2.0%)

Core PCE Inflation

- 2025: (exp. 3.0%, prev. 3.1%)
- 2026: (exp. 2.6%, prev. 2.6%)
- 2027: (exp. 2.2%, prev. 2.1%)
- 2028: (exp. 2.1%, prev. 2.0%)
- Longer run: