PREVIEW: FOMC Rate Decision due Wednesday 29th July 2026 at 19:00BST/14:00EDT

- **FOMC expected to leave rates unchanged at 3.50-3.75%**
- **Softer-than-expected CPI likely to reduce the need for a near-term hike**
- **Attention on Warsh's press conference, with forward guidance unlikely**

SUMMARY: The Federal Reserve is expected to leave rates unchanged at 3.50-3.75%, with money markets currently assigning a 36% chance of a hike on Wednesday, and 36bps of tightening currently priced in by year-end. Most sell-side analysts see the central bank leaving rates on hold, highlighted by the latest Reuters poll which saw all 104 forecasters expecting an unchanged rate decision. 78 out of 104 see no change through the year, while only 6 see rate cuts. Meanwhile, despite consensus for a hold, 66% of respondents now view the likelihood of a rate hike this year as "high," a significant shift from the "low" sentiment recorded in June. Nonetheless, outside of the poll Citadel gave an out of consensus call and sees a 25bps hike on Wednesday. A softer than expected June CPI report and weaker nonfarm payrolls give the Committee room to wait, and forward guidance is not expected to see any forward guidance given the alteration in communication policy. This would allow officials to assess how the Middle East conflict develops, particularly after the recent escalations and subsequent de-escalations between the US and Iran, which has resulted in volatile oil prices. Policymakers have previously cautioned against responding too quickly to what may prove to be a temporary shock, although underlying inflation remains well above target. For Chair Warsh, the most likely outcome may therefore be a hawkish hold. In the June projections, nine of the 18 participants who submitted forecasts expected at least one rate hike this year.

CHAIR WARSH: Last time out the Federal Reserve completely switched up the statement under Chair Warsh's leadership and first confab. It was dramatically shortened, removed all forward guidance language, and reinforced the Committee's commitment to return to the 2% inflation target. As such, any even minor wording changes will be closely scrutinised, and while unlikely to radically change, it is yet to be seen whether there is a consistent statement formula and format, given this is only the second meeting under Warsh. In the following press conference, the Chair is likely to face questions surrounding the inflationary effects of the Middle East conflict, the newly announced task forces and whether the latest data could bring forward the timetable for action. Given Warsh’s distaste for forward guidance, he is unlikely to offer a clear signal. He will likely emphasise that all options remain open, and that future decisions will depend on the data. Desks anticipate a continued emphasis on the inflation side of the dual mandate, though without offering any type of commitment for future hikes. Credit Agricole do not expect any major updates from any of Warsh’s five task forces as it may take until closer to the end of the year for recommendations to be finalised, and likely means no change in balance sheet policy for the time being, and over a longer horizon they remain skeptical that aggressive shrinkage will end up taking place.

DATA: June CPI was cooler-than-expected across the board, and unwound some of the hawkish moves seen after Waller comments prior to the metrics; the Governor said that in the scenario of a hot core June CPI print, a near-term hike should be considered. Meanwhile, Waller added that in the event of a cool print, he would still need a couple more that way to see that as a signal. In addition, the June US nonfarm payrolls report was weaker than anticipated, with the headline below consensus, prior revised down and two-month net at -74k (prev. +93k). While the unemployment rate ticked down, it was likely a result of the decline in the overall participation rate.

RECENT FED SPEAK: Since the prior confab, and accompanying SEPs (which Warsh abstained from), Governors Waller and Cook have indicated that they would consider tightening if disinflation stalls, while there have been notable hawkish comments from 2026 voters Logan and Hammack. The former called for a modestly higher policy rate, which would better the balance outlook and risks, and that some policy restriction is needed to help get inflation to target. Hammack outright said the Fed may need to consider rate hikes. Based on the commentary alone, there is scope for 2-4 possible dissents if the Fed does decide to hold rates.

MIDDLE EAST: As always, attention resides around the US/Iran war, and a new development since the last meeting is that the MoU has been breached, with the countries reinitiating strikes at each other. However, strikes had paused over the weekend resulting in a reduction of the geopolitical risk premium with oil prices tumbling in the days leading into the FOMC rate decision, helping ease inflation expectations.

SELL-SIDE: Credit Agricole expect the central bank to remain on hold, but do add they are entering into a new era in which limited forward guidance under new Chair Warsh leaves some suspense around rate decisions, meaning more live meetings, which is reflected in current money market pricing. Nonetheless, Credit Agricole thinks the data since the last meeting at the very least buys more time for the Fed to stay on hold. As mentioned above, Citadel Securities expects the Federal Reserve to raise interest rates 25bps this week in a surprise move strengthening Chairman Warsh's credibility in the battle with inflation. Citadel added, "The market may once again be underestimating the extent of the hawkish shift at the Fed," and that a hike this week "would emphatically end the forward guidance era" while underscoring the Fed's independence.

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