1 November 2024

Research US

Fed preview: Navigating uncertain waters

- **We expect the Federal Reserve to cut rates by 25bp at the November meeting, which is nearly fully priced in by the markets at the time of writing.**
- **US October Jobs Report and Election Date pose significant risks to both sides of current rates outlook. We think the Fed is more likely to change its forward guidance than its rate decision next week in case of data / political surprises.**
- **Markets are pricing around 30% probability of a pause in December, but we still think 25bp cuts will continue in every meeting until June. More expansionary fiscal policy stance post-election could warrant an earlier end to the cutting cycle but is unlikely to affect rate decisions over the coming few months.**

It is unlikely to be exaggeration to say that the six days in between publishing this report and the FOMC's rate decision come with historical levels of uncertainty. First, October Jobs Report will provide markets with the latest sense of resilience in US labour markets, and we look for a clear slowdown in nonfarm payrolls growth (+130k, Sep +254k). Any surprises should be interpreted with caution, though, given the long list of potential distortions related to weather, strikes and seasonality (read our preview from *RtM USD - EUR/USD faces downside risk ahead of key events*, 29 October).

But all eyes are naturally already on the US elections on 5 November. Donald Trump approaches the election as the slim favourite at least according to the prediction markets, but swing state polls remain extremely close. Pennsylvania and Wisconsin do not allow early counting of mail-in ballots which means they will likely be among the last states where results will be called. In 2020, Michigan was also called only around midnight European time between 6 and 7 November, and as Trump needs to win at least one of the three states, the results might only get confirmed within 24 hours of the rate decision.

In the past, the Fed has occasionally provided 'unofficial' guidance via select news outlets if data releases surprised sharply during the blackout. We think the bar for altering the outlook for the well telegraphed (and nearly fully priced in) 25bp move next week remains high due to the election. If the Jobs report (or change in expected fiscal policy stance) would warrant a shift in monetary policy, we expect the Fed to still move ahead with the 25bp cut and communicate any changes to the outlook in the form of more dovish/hawkish forward guidance during the meeting. The Fed will not publish new economic or rate forecasts so markets full focus will be on Powell on Thursday night.

At the time of writing, markets are pricing around 30% probability of the Fed pausing its easing cycle in December. If Republican sweep allows for more expansionary fiscal policies going forward, we would be inclined to call for a shorter easing cycle (e. g. removing cuts from the end of the forecast) but still call continuing cuts in the near-term. Rising odds of a Republican sweep have lifted the level of term premium priced into the USD curve, which together with stronger USD FX has contributed to a net tightening in financial conditions. Current level of policy rate remains well above FOMC's range of estimates for the neutral rate, and with inflation expectations broadly close to target, we do not see strong reasons for delaying the cuts for longer.

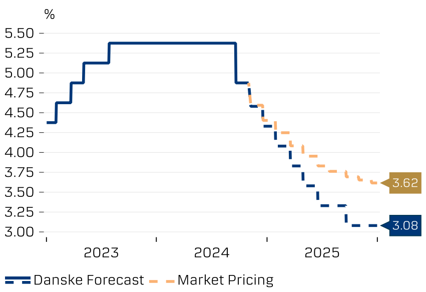
Our Fed call summarized

- 25bp cuts in every meeting until June, terminal rate at 3.00-3.25% reached by September 2025.
- QT continues well into 2025

Tune into Danske Research's morning calls on 6 November to hear our quick takes on preliminary election results and implications for the Fed

- *Global and Scandi FX & FI Market Focus, 8.40 – 9.10 CET, Teams.*
- *Macro Focus, 9.15 – 9.30 CET, Teams*

We expect the Fed to continue cutting rates towards H1 2025



Sources: Macrobond Financial, Danske Bank, Refinitiv

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Expected updates

Ad hoc

Date of first publication

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