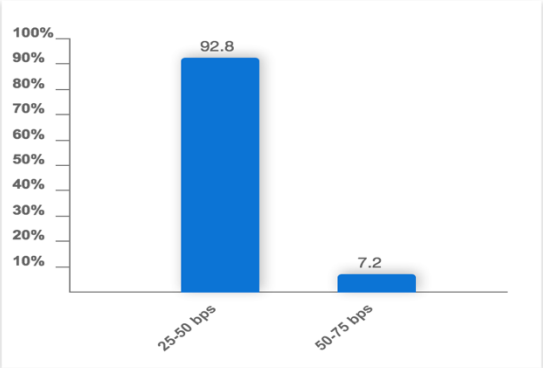
What to Expect from the November FOMC Meeting

The second to last annual meeting of the Federal Open Market Committee kicks of this morning. Fed officials will weigh in on all the new economic data and market events since the last meeting, and determine an appropriate monetary policy response. The meeting culminates tomorrow at 2 PM EST when the Fed makes its announcement and will be revisited again three weeks from now when the meeting minutes are released to the public.

Just a week before the election, the market is pricing in just **7%** odds of a rate hike coming from today's meeting, down from an 8% probability yesterday. These figures are according to the CME Fed Watch Tool. See below.

Meeting date: Wednesday, 2 Nov 2016



Futures Expiry: November 2016
Futures Price: 99.5875

Previous Day
Volume: 44,766
Open Interest: 262,927

Target Rate (bps)	Current Probability %	Previous Day Probability %
25-50	92.8	91.7
50-75	7.2	8.3

31 Oct 2016, 11:15:23 pm CT

The reason the market is basically overlooking this week's meeting is due to an important feature in the Fed's mandate which is to remain independent and free of any political influence. Accordingly, Fed Chair Yellen will be very careful to steer clear of any action that might be interpreted as having influenced the upcoming election. As such, a decision to leave monetary policy status quo until the election passes seems inevitable. The Federal Reserve website clearly states its view on this:

> *"Policymakers, academics, and other informed observers around the world have reached broad consensus that… the conduct of monetary policy… should be free from political influence."*

Things to Look for in Tomorrow's Announcement

Last month, officials said the case for a rate increase had **"strengthened,"** but decided to wait for **"further evidence"** of a strengthening economy before hiking.

So how do Fed officials view the economy this month? What do they make of the recent economic data released? Based on solid job additions and an increase in the labor force participation rate according to the DOL's latest report, it appears the trend

of a **"strengthening economy"** has continued over the last month. Not to mention, on Friday it was announced that the economy grew at an annualized 2.9% in Q3, more than doubling the 1.4% growth reported for Q2.

Is the assessed risk to the economic outlook **"balanced"** or just **"nearly balanced?"** This is important because a "balanced" risk assessment is the Fed's way of saying the likelihood of overshooting expectations is equal to the likelihood of coming up short. The last time the Fed announcement included language of "balanced" risks was in December of 2015 when rates were increased for the first time since the credit crisis. Last month the risk assessment was "nearly balanced." I expect this language to remain unchanged until next month when the Fed hikes again. Important to note though, that this type of risk assessment is usually driven by market volatility or events abroad, not domestically. For example, in a meeting earlier this year, fed officials dropped the balance of risk language altogether when they were worried about market turbulence overseas.

And last but not least, who will this meeting's dissenters be, if any? Last month we had Loretta Mester, Esther George and Eric Rosengren dissent. This month I expect less dissention, if any. Many officials, including Mr. Rosengren, have made statements that they would prefer to wait until December as they are wary of making a move amid any market turmoil that could stem from the upcoming election.

The probability of an interest rate hike at the December FOMC meeting according to the CME Fed Watch Tool is currently **78%**.

Sources:

http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html

https://www.federalreserve.gov/faqs/why-is-it-important-to-separate-federal-reserve-monetary-policy-decisions-from-political-influence.htm

http://www.wsj.com/articles/what-to-watch-at-this-weeks-fed-meeting-1477994401