

Fed decision ahead

Attention now turns to the Fed, which is due to wrap up its final two-day policy meeting of the year on Wednesday.

Traders are almost certain that officials will vote to leave interest rates steady at a range of 5.25% to 5.50% for a third straight gathering, meaning that much of the spotlight will shine on statements from Fed Chair Jerome Powell.

Much of the conversation in the build-up to the event has swirled around how much Powell and his fellow members on the rate-setting Federal Open Market Committee will push back against the narrative that they will soon move to slash borrowing costs. Powell has previously stressed that any decisions will be taken "carefully," particularly as the Fed tries to assess if its recent campaign of aggressive policy tightening has worked to cool inflation.

The Fed could also use the publication of its quarterly "dot plot," a rough outline of officials' rate expectations, to temper hopes for a possible 25-basis point reduction sometime in the first two quarters of 2024. Some Fed members have suggested that they are starting to ponder whether policy is now sufficiently restrictive to quell inflation, while others have argued that several more months of easing price growth may be needed before a cut is justified.

The dot plot, along with Powell's press conference, may help markets get a better sense of how the Fed sees rates evolving heading into the new year.

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