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- Based on futures pricing, there is a 90% chance the Fed will cut at this week's FOMC meeting. With a probability that high, the Fed is unlikely to disappoint the market and investors by merely holding still. To be sure, there is more debate internally than the market is pricing. The problem is that the market is too far out in front of the Fed, and that effectively forces Jay Powell's hand. With unemployment at a 50 year low and few cracks in the consumption component of GDP, Rosengren and George have an argument to hold the line, but the market surprise would probably create too much pain for the FOMC.

- Focus will quickly turn to the outlook for the December meeting which is far more in doubt. Currently, markets are pricing less than a 25% chance of a cut in December. In essence, the market is now forecasting the very "mid-cycle correction" – 3 cuts and a pause – that created so much angst this summer.

- The Fed remains in a near impossible situation. Do nothing and look unresponsive to softening global growth, undertake a few insurance cuts as a mid-cycle course correction and underwhelm equity bulls, or aggressively cut thereby justifying a more bearish market narrative. They are damned if they don't, damned if they do, and damned if they do too much.
- Our view since the September FOMC had been that the Fed would cut once more in 2019, but that it would be more likely in December, not October. However, continued weakness in global manufacturing, capex, and trade since September meeting has changed our view. The Fed can move this week and still retain some optionality for the December meeting.
- The December meeting may turn on the possibility of a trade deal at November's APEC summit. A phase 1 deal could certainly bolster the argument for a pause. However, if the deal fall through, expect more calls for another cut in December. This may not win over all the critics as monetary policy is a poor tool for dealing with the trade slowdown.
- In the near term, there is an easy win here and Trump and Xi will probably take it. We think there is a 65% chance of an agreement at the APEC summit, but it is a band-aid covering up the larger, more intractable issues. We remain highly skeptical of a phase 2 grand bargain in 2020.

- Most of the action will come in Powell's press conference as there are no new economic projections at the October FOMC meeting.

- Powell will certainly be asked about the repo crunch. He will likely remind investors for the umpteenth time that the new T-bill purchases to add liquidity are "not QE." For now, the Fed doesn't want to entertain the notion of an open-ended standing repo facility. However, the T-bill purchases in conjunction with the overnight and term repos offered aren't completely closing the funding gap. Expect more asset purchases that are 'not QE'. Powell will have to

address it, but he may be hesitant to break any new ground on the repo/funding issue because he wants it to be seen as separate from monetary policy.

- Having most likely gotten his two cuts – although not at once – Bullard will probably not dissent. More interestingly, we'll see if global weakness during the inter-meeting period has put any fear into Rosengren & George or if they remain unconvinced with the US economy humming along at 3.5% unemployment.