Central Bank View

US Desk Strategy | Global Markets Americas

October FOMC Preview:

Fed taking a back seat to global drivers

October 27, 2026

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FOMC Meeting Views

Fed taking a back seat to global drivers

FOMC Views | A pause that refreshes & gives the Fed time to eval conditions

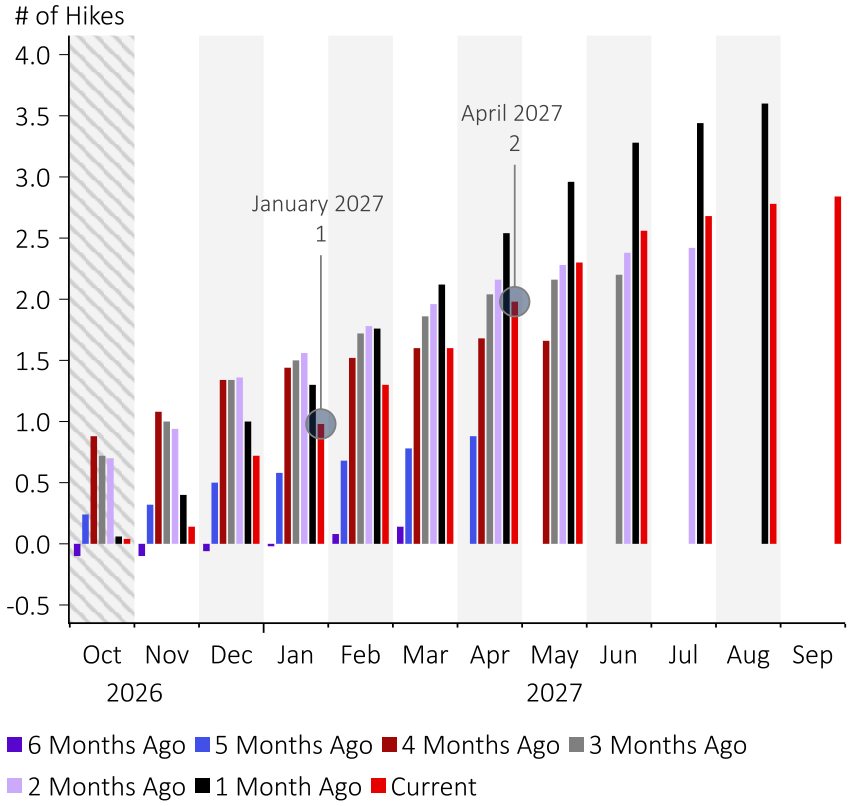
Scenario	Probability	Assessment
Dovish Pause	5%	▪ *A unanimous vote to pause (maintain the current target range for the federal funds rate) and updates to the task force on inflation frameworks would be dovish. Short of that, it will be difficult for Chair Warsh to present a dovish message at the press conference as he gets pressed on the hot September CPI/PPI print.*
Neutral Pause	35%	▪ *A unanimous vote to pause is possible, but it would likely be tempered with a balanced press conference. The way Chair Warsh responds to questions on the recent inflation data will dictate much of the tone. He is unlikely to dismiss the inflationary signals but may imply that the Fed can take its time assessing the appropriate path for overnight rates, perhaps by insisting that the Fed is not a preset course to raise rates (justifying a skip at this meeting). He can also emphasize that inflationary pressures are really stemming from geopolitical events outside of the Fed's control. In our view, such responses would be perceived as neutral.*
Hawkish Pause *Base-Case*	55%	▪ ***Statement:*** *The characterization of the economy is expected to remain the same as the last FOMC statement: consumer spending and capital investment are "strong," the labor market is "balanced" with jobs growth keeping up with the size of the labor force (i.e., breakeven rate), and inflation is elevated. The vote count, however, may signal hawkishness with the potential for 3 dissents in favor of a hike at the October meeting.* ▪ ***Presser:*** *Chair Warsh's tone tends to come across as hawkish in many of his speeches, and at times, during FOMC press conferences. We expect the Chairman to avoid signaling any sort of forward guidance, but he will certainly be pressed on the recent inflation figures that came in unexpectedly hot. Fully acknowledging the latest signals while insisting that "inflation is a choice" would reinforce the more hawkish data.*
Hawkish Hike	5%	▪ *Odds are low, but with futures market pricing-in a very low probability of a hike, changes to the policy rate would, in and of itself, be very hawkish, regardless of comments made at, or tone of, the press conference.*

FOMC Views | Markets already looking past Oct and focusing on Dec meeting

Markets are still pricing in an aggressive path, but a drawn-out campaign. The Dec meeting remains in play, but it is unlikely that the Fed delivers in 2027

- A full hike is not priced in the fed funds futures market until January 2027, with looming uncertainty on how the rest of this year will pan out. A hawkish pause at October FOMC will likely push odds above 80% for December, though the data & FCI between now and then will be consequential.
- Net, 2027 hikes hinge on diesel 2nd round effects and if AI concerns fade, with 3 hawks dropping in 2027, hard to see Fed delivering what's priced in.

Number of Fed Rate Changes (Priced in Now vs 6 Months Ago)



Source: Macrobond and MUFG US Macro Strategy

Conditional FOMC Meeting Probabilities

Current Fed Funds Rate: 3.75-4%

Meeting	Implied FFR	3.75-4.0	4.0-4.25	4.25-4.5	4.5-4.75	4.75-5.0
Oct 29, 2026	3.89 %	88.9 %	11.1 %			
Dec 9, 2026	4.06 %	18.4 %	72.8 %	8.8 %		
Jan 27, 2027	4.12 %	11.7 %	52.8 %	32.3 %	3.2 %	
Mar 17, 2027	4.28 %	4.0 %	25.8 %	45.8 %	22.3 %	2.1 %
Apr 28, 2027	4.37 %	2.6 %	18.3 %	38.9 %	30.4 %	9.0 %
Jun 9, 2027	4.52 %	1.7 %	12.5 %	31.3 %	33.5 %	16.9 %
Jul 28 2027	4.55 %	1.5 %	11.3 %	29.2 %	33.3 %	18.8 %
Sep 30, 2027	4.58 %	1.3 %	10.3 %	27.4 %	32.9 %	20.2 %
Oct 29, 2027	4.60 %	1.3 %	10.3 %	27.4 %	32.9 %	20.2 %

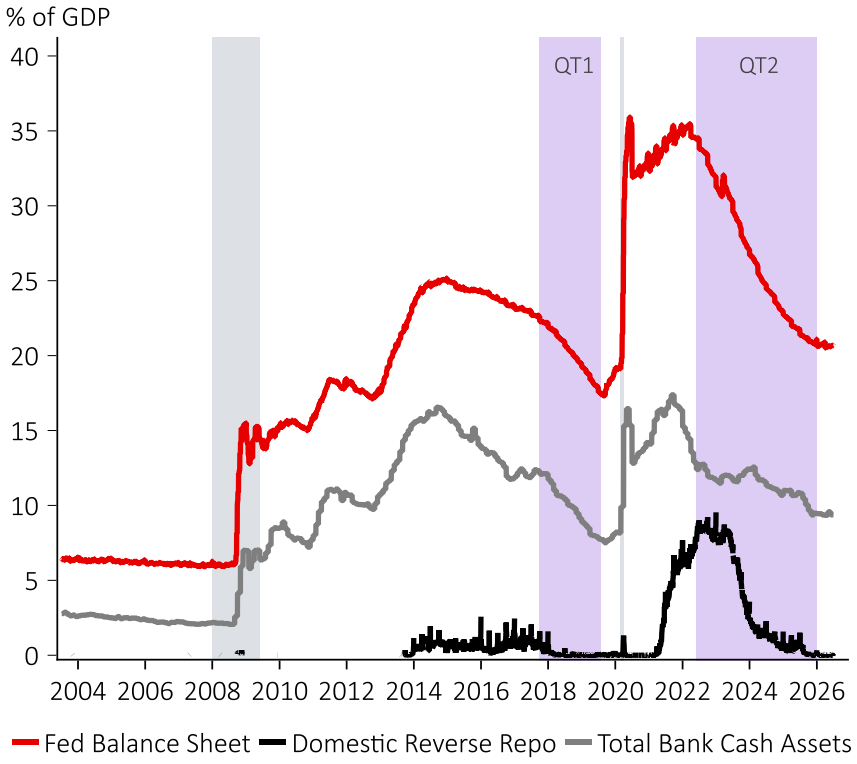
Source: CME FedWatch, Macrobond and MUFG US Macro Strategy

FOMC Views | Warsh may use Oct-FOMC to update markets on task forces

Balance sheet and forward guidance policy are directly within the control of the Fed, and with Q4 already here, Warsh may have news to give

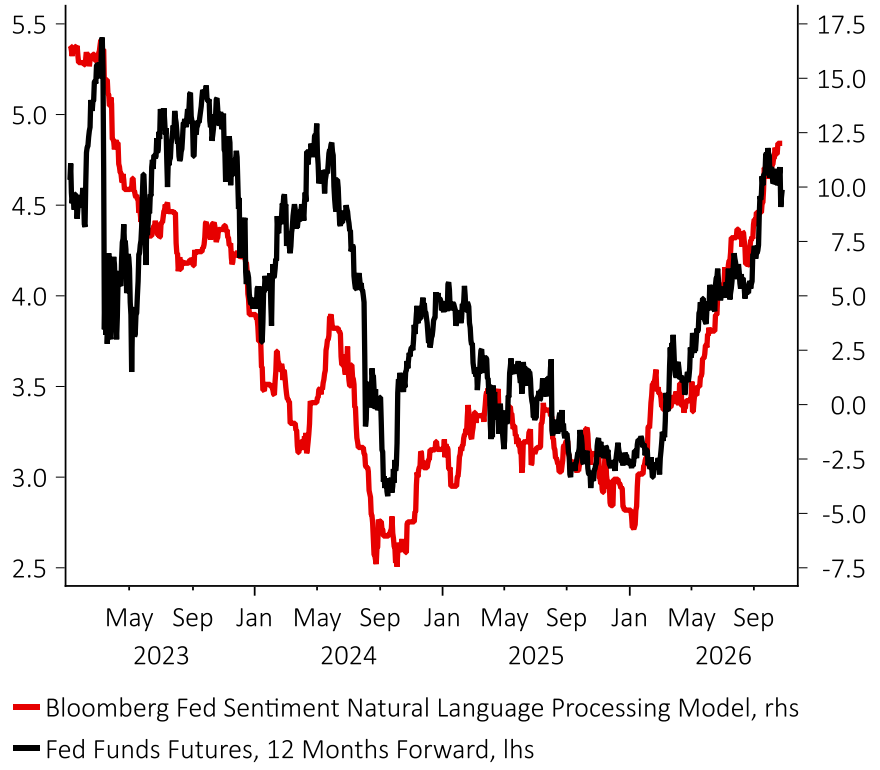
- Returning to a scarce-reserves framework is probably not in the cards, but stating "The Committee is continuing its policy of maintaining ample reserves in the banking system" in FOMC statements implies that alternative liquidity frameworks (i.e. use of repo programs) are being considered.
- Warsh wasted no time breaking from Fed communication norms, but other FOMC members have been as vocal as ever. A formal policy on forward guidance may emerge from the task force (fewer press conferences in 2027, reduced SEP, etc.), which would change communication dynamics.

Fed Balance Sheet (B/S) vs RRP vs Total Cash Assets in Banking System as % of Nominal GDP



Source: Fed, BEA and MUFG US Macro Strategy

Conditional FOMC Meeting Probabilities



Source: Bloomberg and MUFG US Macro Strategy

Market Thoughts

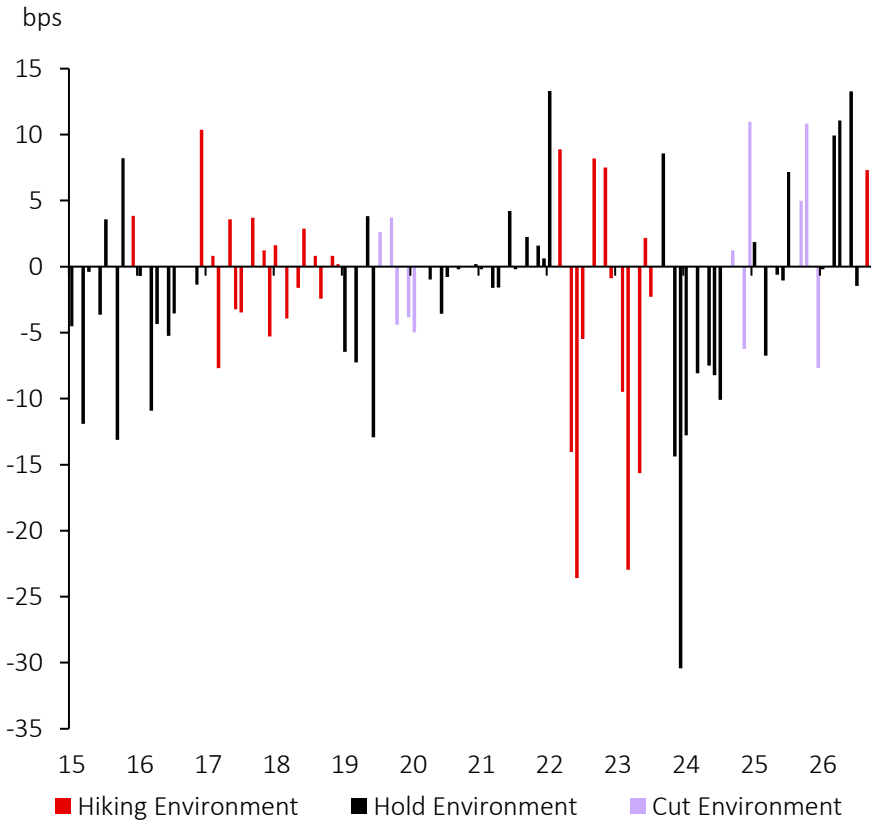
Hard for a hawkish pause to meaningfully move markets

Markets | Rate market changes on Fed Day

We think a hawkish pause can still result in some rate market movements intraday, but unlike recent FOMC events, it's hard to see a major sell-off this time

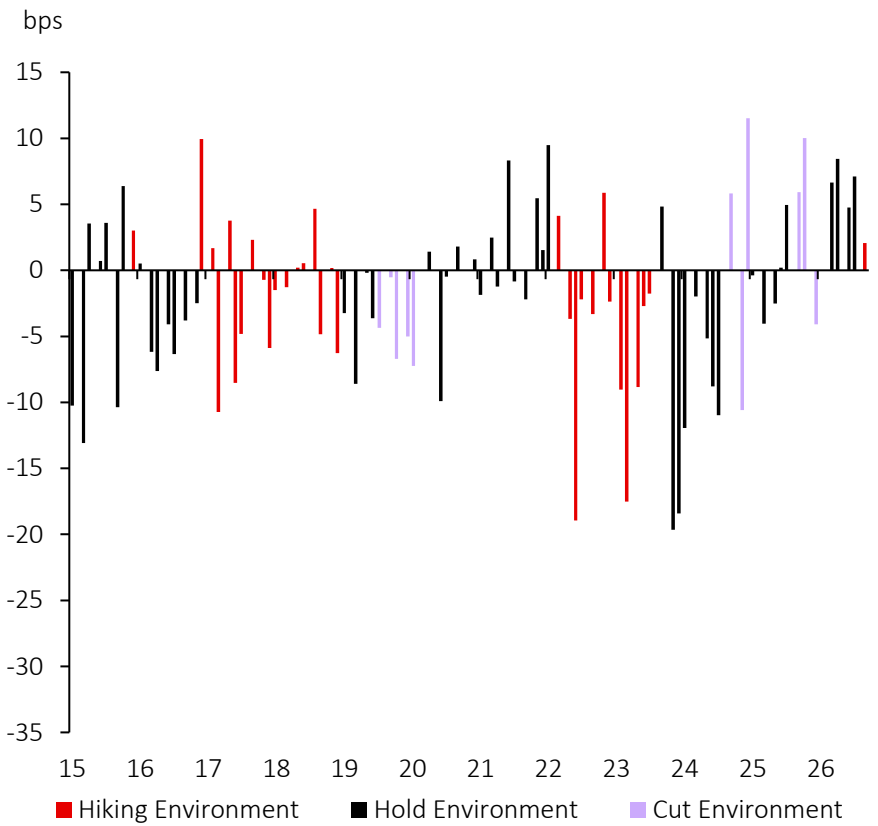
- Since the start of Warsh's regime, the 10yr ended the day higher on all FOMC decision days, though 2s have sold off even more (except in July).
- Rates have had a decent rally, so they could give back some gains on an overtly hawkish Warsh, but hard to see major selloff with the Fed skipping.

2Y Yield Change on Fed Days



Source: Bloomberg and MUFG US Macro Strategy

10Y Yield Change on Fed Days



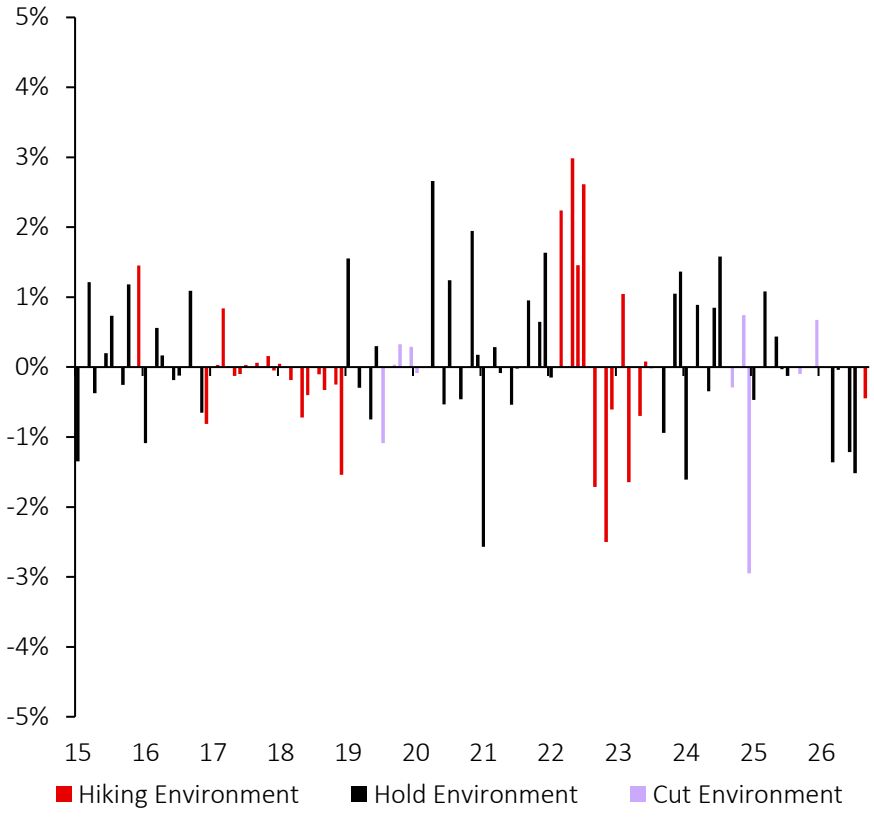
Source: Bloomberg and MUFG US Macro Strategy

Markets | Risk market changes on Fed Day

Stocks to take their queue from how much rates move up or down (but overall due a minor rally post event)

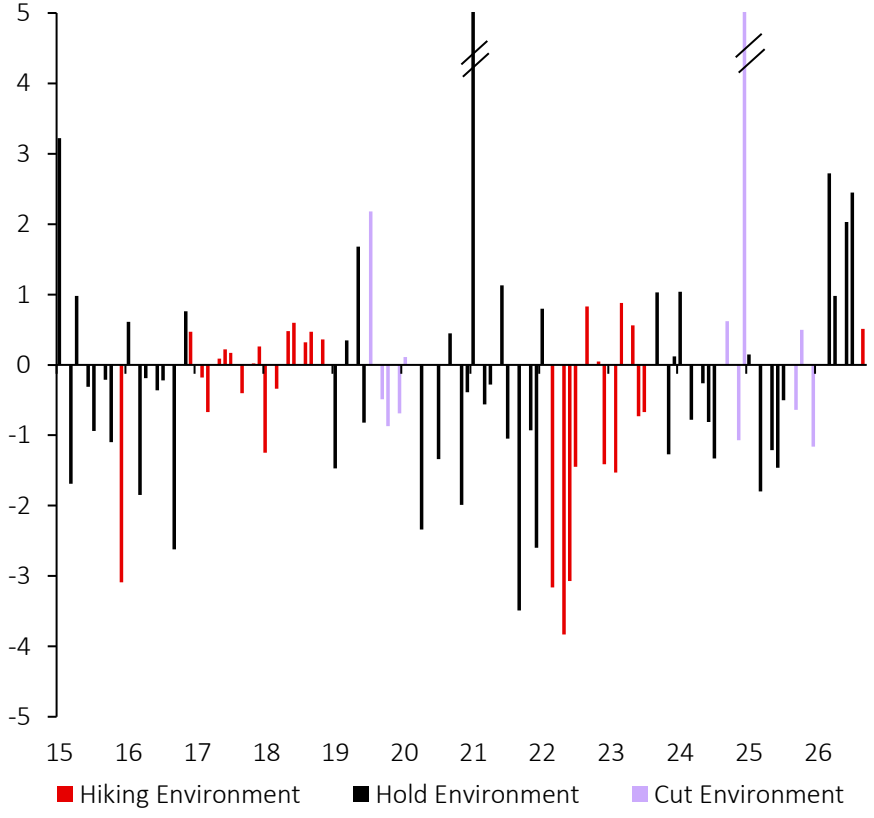
- If rates have a muted reaction to the FOMC, that should, at the margin, result in some risk taking in stocks.
- With the risk market seeing losses at every FOMC since Warsh took the helm, they are due a minor rally.

SPX Change on Fed Days



Source: Bloomberg and MUFG US Macro Strategy

VIX Change on Fed Days



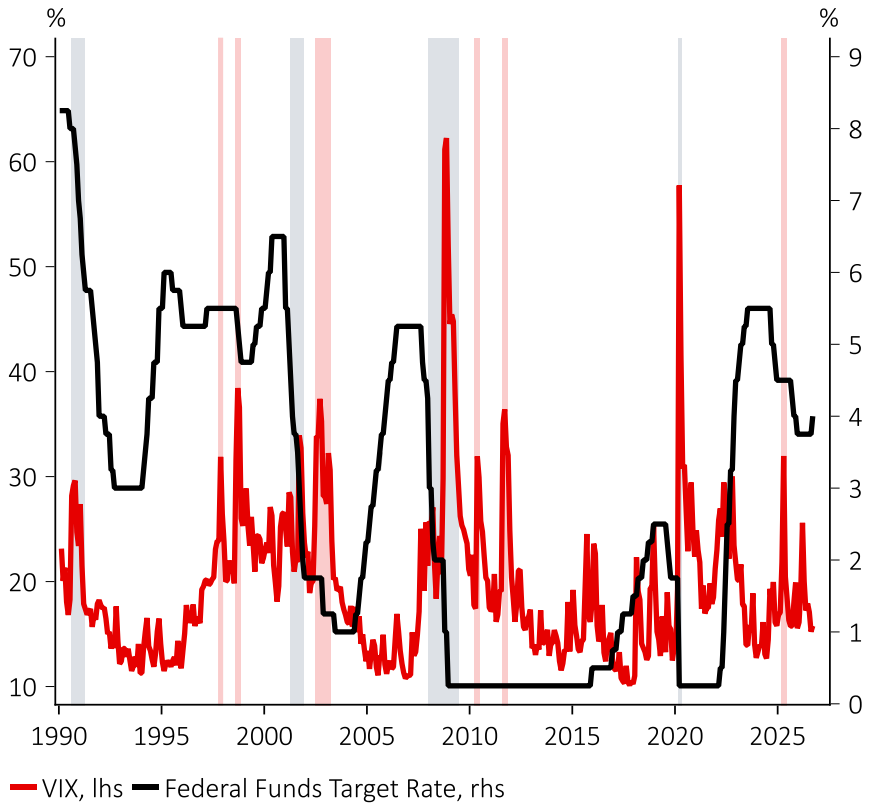
Source: Bloomberg and MUFG US Macro Strategy

Markets | Monetary policy also captive to financial conditions and volatility

As with the economy (driven by wealth effect from stock market), the Fed is captive to those forces and would stop tightening if conditions change

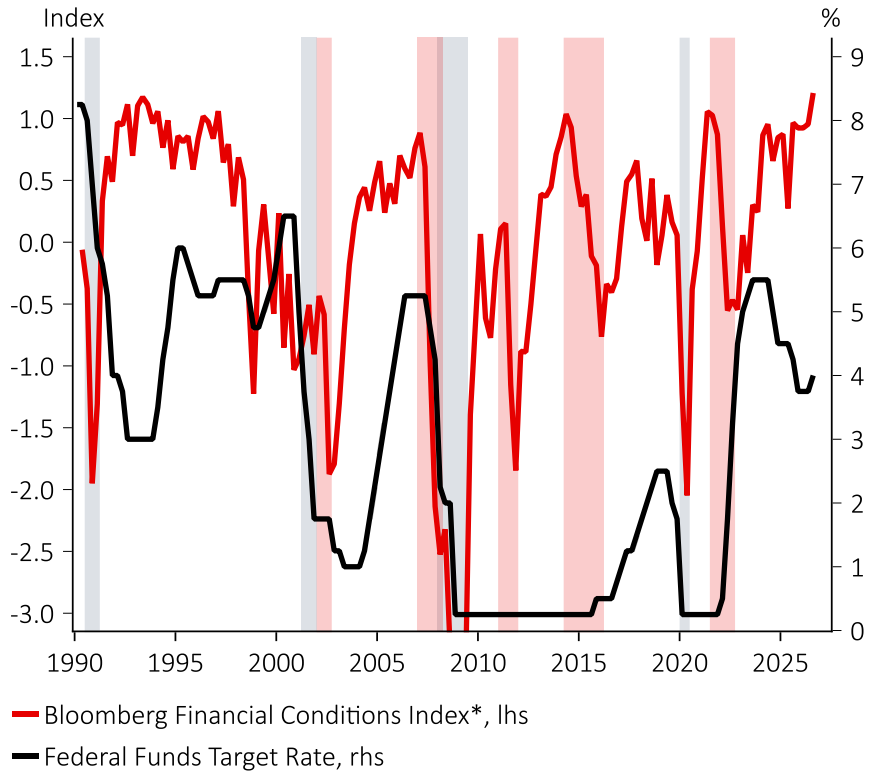
- Although VIX and financial conditions moves have been muted, the last few weeks has seen stock market come under pressure over Ai concerns.
- If concerns about Ai related firms were to lead to further stock declines, that would take Fed hikes off the table in the coming months as well.

Volatility Index (VIX) vs Federal Funds Rate (FFR)



Source: CBOE, Fed and MUFG US Macro Strategy

Financial Conditions Index to Federal Funds Rate (FFR)



*3-month moving average

Source: Bloomberg, Fed and MUFG US Macro Strategy

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