December 2016 FOMC Meeting Preview

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100% Expectation for a Rate Hike Today

- The last FOMC meeting on November 2 sent clear signals (dropping "closely monitoring," for example) that the Fed was on track to raise rates today.
- November 17th, Yellen told Congress that a rate hike was likely to be "appropriate relatively soon."
- Fed commentary since then has consistently encouraged market pricing for a December hike. There has been no warning off of expectations for a hike today.
- Message received, hike odds have been pegged near 100% for the last several weeks.
- Current range for Fed funds is .25% to .50% with a midpoint of .375%
- All 78 economists in the Bloomberg survey see a 25 bp hike today to a new range of .50% to .75%.

Dot Plot. Three Hikes in 2017 Would Be A Hawkish Surprise

- The "Dot Plot" shows, anonymously, what each Federal Reserve Bank president and member of the Board of Governors thinks short term interest rates should be in coming years.
- These come down as headlines right at 1:00.
- In the last set of projections made at the September FOMC meeting (bolded below), the median dots were revised lower almost across the board, you can see that this has been the trend.
- In fact, they were revised lower at almost every meeting in 2015 and 2016.

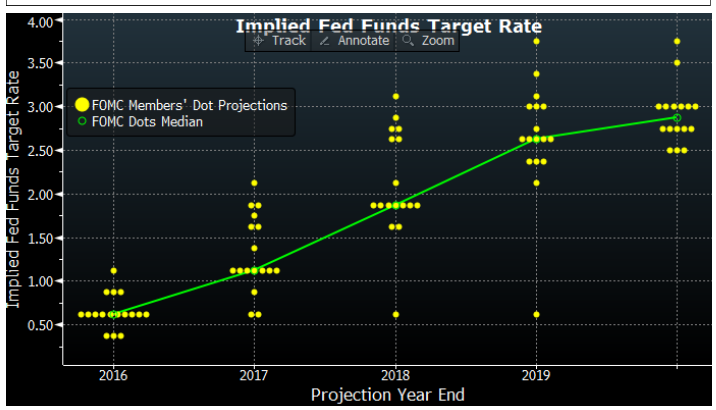
	Sep 16	Jun 16	Mar 16	Dec 15	Sep 15
2016	**0.625%**	0.875%	0.875%	1.375%	1.375%
2017	**1.125%**	1.625%	1.875%	2.375%	2.625%
2018	**1.875%**	2.375%	3.000%	3.250%	3.375%
2019	**2.625%**				
"Longer run"	**2.875%**	3.000%	3.250%	3.500%	3.500%

- The September mid point 2016 projection of 0.625% expected today's hike of 25 bp (current mid-point of 0.375% + 25 bp).
- The September mid point of 1.125% for 2017 expected two more hikes in 2017. Per Bloomberg's survey, the next hike is not expected until June. Market pricing is for two hikes next year.
- The September mid point of 1.875% for 2018 expected three more hikes in 2018.
- The September mid point of 2.625% for 2019 expected three more hikes in 2019.
- Below are some expectations for the December Dots to be released today:

	2017	**2018**	**2019**	**Longer run**
Last (Sep)	**1.125%**	**1.875%**	**2.625%**	**2.875%**
Rabobank	0.875%			
JP Morgan	1.125%	1.875%		
Morgan Stanley	1.125%	1.875%		2.750%
Deutsche Bank	1.125%	1.875%	2.625%	2.875%
BNP	1.125%	2.125%	2.625%	2.875%
Goldman	1.125%	2.125%	2.625%	2.875%
Danske	1.125%	2.125%		2.750%
Credit Ag	1.125%	2.125%		2.750%

Upper bound of the Fed funds target rate, 0.25% to 0.50%.

Fed's Dot Plot (September)



ABN Amro	1.375%
Macquarie	1.375%?

- There is too much uncertainty tied to the Trump presidency for any move in the 2017 dot today, it is widely expected to be unchanged at 1.125%, pointing to two hikes in 2017.
- **The hawkish surprise would be the 2017 Dot moving to expectations for three hikes, coming in above 1.125%.**
- There is some risk that the 2018 Dot gets a 25 bp bump but the focus is likely to be on the 2017 Dot.
- Since the election, bets on stronger U.S. economic growth have led the market to begin pricing in a quicker pace of Fed hikes.
- Currently the Fed's dot plot and futures pricing largely agree on the rate outlook, a divergence from recent years when markets generally priced a shallower rate path than indicated in the Fed projection.
- BBG - In a sign of the shifting view, the market's expectation for the Fed's long-run policy rate is now only about a percentage point below officials' forecast in their most recent "dot plot" update, the

The progression of the balance of risks statement	
October 2015	Nearly balanced, hike followed in December
December 2015	Balanced
July 2016	Risk to outlook have diminished
September, 2016	Roughly balanced
November 2016	Roughly balanced
December 2016	Balanced?

smallest gap since 2014.

The Fed's Statement Will Likely Look Upbeat

- The statement (the last one, from November, is on page 3) is likely to appear more upbeat, that is expected by the consensus.
- Upgraded assessments are expected in paragraph one after the unemployment rate dropped to a nine-year low of 4.6%. Business spending is also showing signs of perking up.
- In November, the statement described the risks to the economy as "roughly "balanced."
- As they did at the last hike in December 2015, they are likely to say today that the risks are, "balanced."

Yellen Will Hold A Press Conference, Its Likely to be Boring

- FOMC members have consistently said that they plan on raising rates only gradually. Look for Yellen to repeat that today.
- Yellen should also reiterate that monetary policy is not on a preset course.
- Markets want to know how the FOMC will react to Trump's fiscal expansion ($1 trillion?), deregulation push and tax cuts.
- Although she will be asked repeatedly in the press conference, its too early to expect a response from Yellen, nobody knows what the numbers or the potential impact on the economy will look like.
- Some FOMC members have said it is possible they might tighten policy more in response to Trump's fiscal stimulus, but others have cautioned that it is still early days—that enacting new policies could take time, the final shape of the measures is far from clear, and their economic effects could be felt over several years.
- In Congressional testimony on November 17th, Yellen said that, **"Uncertainty about these matters will last for some considerable time.** When there is greater clarity about the economic policies that may be put into effect, the committee will have to factor in those assessments and perhaps adjust our outlook depending on what happens."
- We aren't there yet, not even close.
- I would expected Yellen to remain circumspect, non-committal when asked about Trump's policies in Q&A.

The Summary of Economic Projections

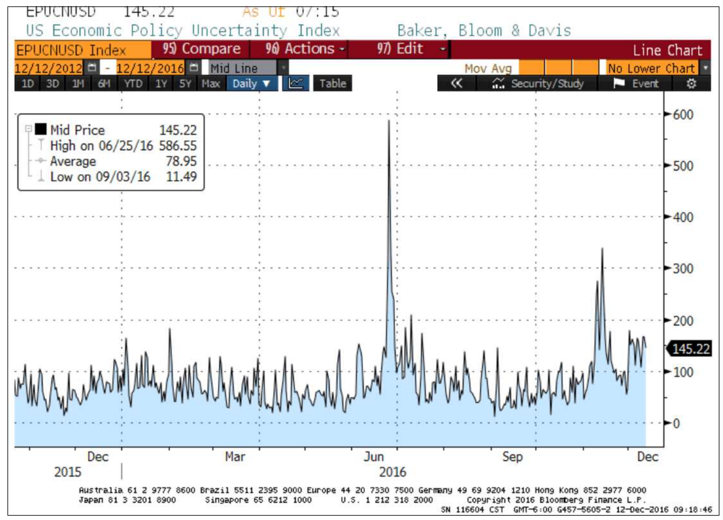
- No significant changes are expected, the unemployment rate projections may be adjusted downward somewhat to reflect the recent drop in the jobless rate to new cycle lows.

Dissenters

- The consensus is not looking for any dissenters as the hawks will

December rate hike odds have been pegged near 100% for several weeks.

The Baker, Bloom and Davis daily news-based Economic Policy Uncertainty Index spiked on Brexit and around the US election and still remains historically high. The current uncertainty around the Trump administration is the main reason why the consensus is not looking for much of a message from Yellen today.



have gotten their hike.

Previews

Goldman - Markets have reacted strongly to the presidential election, and fiscal easing may eventually warrant a quicker pace of rate hikes by the FOMC. However, Fed officials will have few policy details at this stage, and will undoubtedly want to see the first rate increase in a year go off smoothly. Therefore, we look for the committee to offer a mostly steady message next week, and to delay incorporating fiscal policy changes into the outlook until next year.

Fortunately, there is already enough data in hand to make a strong case for a rate increase at the meeting: (1) growth momentum has picked up from earlier this year, (2) spare capacity has diminished further, and (3) inflation news has been mostly encouraging. Moreover, policymakers do not appear overly concerned with the tightening of financial conditions, as dollar appreciation and higher yields appear driven by improving growth prospects.

We therefore expect a unanimous vote for an increase in the funds rate range to 0.50-0.75%. The statement will likely upgrade its description of the risks to the outlook to "balanced" from "roughly balanced". The committee may adjust its assessment of the policy stance to "moderately accommodative" from "accommodative", as many officials have already done in their public comments.

In the Summary of Economic Projections, we expect (1) upward revisions to GDP growth, (2) downward revisions to the unemployment rate, including the median estimate of the structural rate, (3) slight upward revisions to headline and core PCE inflation, and (4) unchanged median projections for the funds rate.

In the press conference, look for Chair Yellen to highlight the incoming data and to repeat the committee's existing outlook that the pace of rate hikes will be gradual. We see little incentive for Yellen to dwell on the uncertain outlook for fiscal policy at this stage.

This week we are making a moderate upward revision to our GDP forecasts, adding 0.25pp to annualized growth in Q2 2017 and 0.25pp to all four quarters of 2018. The latter revision reflects our ongoing analysis of the possible impact of policy changes by the incoming administration. We now see a somewhat bigger net boost to growth, with the largest effects coming in 2018.

Deutsche Bank - On Wednesday afternoon at 2PM EST, the Fed will release its FOMC statement, which will most likely announce a 25 basis-point increase in the funds rate. The tone of the release is expected to remain cautiously optimistic. The Fed's GDP, unemployment and inflation forecasts will probably not change in any meaningful way. More importantly, we do not expect the Fed's dots to change either. Fed Chair Yellen will hold a post-meeting press conference along with Q&A. Our best guess is that all of this will be a nonevent for financial markets, which have fully discounted a rate increase.

JP Morgan - We expect the Fed to hike rates next week and we look for their interest rate forecasts for 2017 and beyond to be little changed from their last forecasts submitted at the September meeting. We believe the statement will convey that risks to the outlook are balanced, but will take no view on the prospects for fiscal policy. Similarly, we believe that in her press conference Chair Yellen will stress that it is premature to change the outlook for the economy or for monetary policy. More generally, we think the main takeaway to come out of next week's meeting will be the sense that the Committee believes it's too soon to say how the outlook has changed. Indeed, most Fed speakers since the election have indicated they are not going to guess how fiscal policy or other aspects of federal economic policy will change, but that instead they will only revise their forecasts once there is some true clarity on these aspects of the outlook.

Fed communications, both from the FOMC and from individual speakers, have strongly signaled a hike at next week's meeting. The last remaining hurdle, the November jobs report, was cleared with elan. As such, we look for the target fed funds range to be raised 25 basis points to 0.50%-0.75%. We anticipate no dissents.

Turning to the economic and interest rate forecasts, the rise in the value of the dollar since mid-September should exert some downward influence on the 2017 GDP and inflation forecasts. The surprise fall in the unemployment rate should about offset the dollar's downward influence on the inflation forecast, and we think the participants will continue to project a 1.8% core PCE inflation rate for next year. With no offset to the dollar's effect on growth, we could see the GDP projection for next year nudged down to perhaps 1.9%. Given their post-election speeches, we do not expect the governors or Bank presidents to factor in significant fiscal stimulus (or trade disruptions) into their forecasts just yet. The unemployment rate projection could come down a tenth or two for next year to 4.6%-4.7%, based on a lower jumping-off point. The Committee took a fair bit off the longer-run growth outlook in September, we see less need to lower that at this meeting. Given the firming in most wage measures, we think they will keep the natural rate of unemployment estimate unchanged at 4.8%.

Last (November 2) Information received since the Federal Open Market Committee met in September indicates that the labor market has continued to strengthen and growth of economic activity has picked up from the modest pace seen in the first half of this year. Although the unemployment rate is little changed in recent months, job gains have been solid. Household spending has been rising moderately but business fixed investment has remained soft. Inflation has increased somewhat since earlier this year but is still below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation have moved up but remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. Inflation is expected to rise to 2 percent over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The Committee judges that the case for an increase in the federal funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; James Bullard; Stanley Fischer; Jerome H. Powell; Eric Rosengren; and Daniel K. Tarullo. Voting against the action were: Esther L. George and Loretta J. Mester, each of whom preferred at this meeting to raise the target range for the federal funds rate to 1/2 to 3/4 percent.

Given these modest changes in the outlook, we expect the median interest rate forecasts "dot" for 2017 will continue to anticipate two hikes next year. The recent precipitous decline in the unemployment rate may be unnerving to some on the Committee, but to move the median dot to three hikes would require three hawkish defections among the seven who looked for two 2017 hikes back in September. This seems to be a pretty tall order and so we continue to see the median dot at two hikes next year. The Committee has already been quite aggressive in bringing down the longer-term dots recently, and we think that process may take a breather next week. With little change in either the 2017 or longer-term dots, we have no compelling reason to expect big changes to either the 2018 or 2019 dots.

The post-meeting statement will need to make a few changes in the description of the economy. The unemployment rate is 0.4%-point lower than reported at the time of the November meeting, so it can no longer be described as "little changed in recent months." Headline and core inflation have increased further, and so the inflation description should sound less hesitant than it did in the November statement. Similarly, it is

Core PCE at 1.7% y/y in October, still below the FOMC's target of 2% but going in the right direction.

At 2.5%, the UofM's 5/10 year survey based inflation expectation is sitting near its all-time low of 2.4%.

now questionable whether market-based measures of inflation should still be characterized as "low." Moving on to the second paragraph, the last statement concluded that risks were "roughly balanced." Given that this is a rate hike meeting it would be appropriate to describe the risks as just "balanced." We don't think fiscal policy or financial conditions will yet merit a mention in the assessment of risks. The third paragraph should be used to justify the increase in the funds rate on the basis of "the time it takes policy to affect future economic outcomes," just like last December's statement. We believe the fourth and fifth paragraphs—relating to interest rate and balance sheet forward guidance—will be unchanged. Most notably, we expect the statement will still refer to "only gradual increases" in the funds rate.

Chair Yellen will have her hands full at the press conference. We expect the journalists will attempt to goad her into commenting on various aspects of the president-elect's economic agenda, though she has shown past agility in dodging these questions. We'd expect her to be more vocal if the topic of Fed reform legislation comes up, as she has strongly objected in the past to the various legislative proposals to alter the structure or mandate of the Fed. More broadly, in keeping with the spirit of the statement and the forecasts, we expect that she will indicate that the Committee is unlikely to change its outlook until they get more clarity on next year's fiscal and economic policy changes.

Market based measures of inflation expectations have been moving steadily higher.

Credit Ag - The FOMC is widely expected to raise its Fed funds target range by 25 bps to 0.50% - 0.75%, following the meeting on 14-December. Fed funds futures are 100% priced to that result. Fed officials have indicated that they are ready for the next step in rate normalization, having waited a year after the lift-off from the lower bound.

We look for the median Fed funds projection for 2017 to be roughly unchanged, pointing to two 25 bps rate hikes in prospect for next year. For 2018, we suspect that the Fed's median estimate will point to four ¼ point hikes—up from three in the September projections.

Based on recent economic trends (improved second-half growth after a few sluggish quarters), the Fed's updated projections for growth, inflation and employment are likely to be more optimistic.

Our baseline forecast for 2018 includes a small boost to growth from fiscal measures (tax cuts, reduced regulation, increased discretionary outlays). We forecast growth remaining above the economy's long-term potential rate, which is estimated at around 1.8%. Consequently, unemployment moves further below the natural rate in our forecast and leads to somewhat higher inflation. Under these conditions, we look for the Fed to move rates more quickly from a moderately accommodative position to a neutral policy posture. We expect the FOMC to raise the Fed funds target range to 2.0% - 2.25% by yearend 2018.

The FOMC statement's economic assessment will likely read more upbeat with improvements in labor market conditions underscoring further evidence of continued progress toward its objectives. The FOMC will signal that it sees near-term risks to the economic outlook as balanced. The new level of the Fed funds target range will remain accommodative, in the Fed's view, thereby supporting further improvement in labor market conditions and a return to 2% inflation. The Committee is expected to maintain that "economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate."

A higher-than normal degree of policy uncertainty argues for a gradual approach to raising rates from the Fed. The recent declines in the unemployment rate suggest that the Fed has essentially met its employment mandate. Moreover, with firming labor markets and GDP growth expected to continue above the Fed's view of long-term potential growth (1.8%), Fed officials likely remain confident on reaching the 2% inflation objective over the next year or so. Consequently, the economic fundamentals point to further normalization of current low interest rates. But uncertainty over the economic policies of the new administration remains high and argues for a cautious approach to removing policy accommodation.

Morgan Stanley - Trump's economic agenda suggests that Fed's

Bloomberg's US Financial Conditions Index remains near its best levels in a year and a half, no signs of tighter conditions.

forecasts for growth and policy "look achievable," which should lead to hikes next year at September and December meetings.

Fed will maintain its path for target rate at Dec. 14 meeting as it's still too early for the central bank to build in assumptions around fiscal policy Expect a slight downward revision to NAIRU as well as longer-run neutral rate

Market possibly pricing in a "decent probability" that median dots shift higher next week, though current market expectations are along FOMC's projections

Implied odds for June 2018 hike mean that market is "appropriately" assuming Fed will approach policy pragmatically as fiscal agenda uncertain Most important dots for meetings going forward are those that will be missing from the two current board vacancies, as Trump nominees could be top candidates for the next Chair or Vice Chair.

Scotia - The two-day meeting of the Federal Open Market Committee starts Tuesday and culminates in Wednesday's 2pmET statement and Summary of Economic Projections by FOMC members followed by Chair Yellen's press conference at 2:30pmET. We are among the 58 out of 60 forecasters within Bloomberg's consensus that expect the Fed to hike by 25bps, taking the fed funds target range to 0.5-0.75%. Fed fund futures remain 100% priced for a hike. To not hike would arguably risk doing more damage through negative signaling or higher inflation expectations.

A cautious balance is likely to be struck on the bias and on that issue there is more of a difference of opinion across markets in a fair debate. I think there is a solid case for a dovish hike that leans against market forces that risk short-circuiting further dual mandate progress.

If the Fed doesn't lean against bond and currency markets then watch out, we're in for greater curve steepening into the new year and a stronger dollar. That could raise the odds of greater caution at future meetings. The broad trade-weighted dollar index is at a 15 year high and the 30 year mortgage rate has climbed by almost three quarters of a percentage point over the past couple of months. Trade and housing markets face downside risk. As argued here, the economic pain arrives first in the "Trump trade" before uncertain net gains to possible future fiscal, trade and regulatory policy actions that markets are probably overestimating. It's not all about Trump, however, in that the USD has been swinging higher since 2014 and yields were rising several weeks ahead of the election for global reasons. Some of this is because of improved fundamentals, some is an overshoot, and some is thanks to actions of other global central banks.

There are many ways in which the Fed could resist the urge to join the party or invoke an incrementally more dovish bias. I'm probably only thinking of a few, but it's entirely possible that it does so using any one of its main tools on game day — or a combination.

Expected market reaction to December FOMC

	Hawkish hike	Neutral hike	Dovish hike
Short rates	Higher	Unchanged	Lower
Long rates	Unchanged	Unchanged	Higher
Yield curve	Flatter	Unchanged	Steeper
Equities	Higher	Higher	Higher
Credit spread	Narrower	Narrower	Narrower
Dollar	Higher	Higher	Lower
Oil	Higher	Higher	Unchanged
Prob of scenario	55%	40%	5%

Note: Hawkishness driven by dot chart:
Hawkish hike = more than two hikes expected in 2017
Neutral hike = two hikes expected in 2017
Dovish hike = less than two hikes expected in 2017
Source: DB Global Markets Research

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1. Language: They could flag tightened financial conditions in either nuanced or explicit ways. They could shift language to how real wage growth is under downward pressure). They could also reference uncertain effects of fiscal policy on the dual mandate with some forms being inflationary and some not. They could maintain reference to unchanged — if not falling — survey-based measures of inflation expectations and downplay market-based readings that have simply caught up. Tilting away from balanced near-term growth risks is a possibility.

2. Dots: The FOMC could choose to leave the median pace of projected hikes unchanged or even lower it; either would signal caution relative to market enthusiasm. Recall that the last dots forecast two hikes in 2017 and three in each of 2018 & 2019. Two year Treasury yields have doubled since July and that may be too much too soon.

3. Macro forecasts: The FOMC could only tweak forecasts by marginally downgrading 2016 GDP growth and PCE inflation and marginally upgrading them for 2017-18 if at all.

4. Press conference: Especially if the FOMC's dots don't inject caution, Chair Yellen might do so with a buck-stops-here approach. She might dwell upon the dollar and bond markets doing too much of the Fed's work too soon. She could discuss the evidence on fiscal multiplier effects and uncertain consequences to growth. She could argue they cannot act in anticipation of other policy levers versus waiting for action to show up in data-dependent fashion. She could also warn of the consequences to protectionism.

BMO - We look for the FOMC to raise policy rates by 25 basis points next week, a year after lift-off. This anticipated action was first signaled in the September 21 statement with the phrase, "the case for an increase in the federal funds rate has strengthened", and the inclusion of a net risk assessment, "roughly balanced", for the first time this year. It was re-signaled in the November 2 statement with the words "continued to strengthen" replacing "strengthened", which implied a more compelling rate-hike argument in the Fed's mind compared to before. The Minutes to this latest meeting said "most participants expressed a view that it could well become appropriate to raise the target range for the federal funds rate relatively soon".

Furthermore, for a "few" participants, relatively soon meant "this meeting" (November) and for "some" it meant "next meeting" (December). Basking in the post-election light of stronger growth and faster inflation prospects, along with continued labour market gains on the ground, the ranks of the "few" and the "some" have likely risen enough to muster a majority of FOMC voters, if not unanimity.

Here's what we also expect on December 14:

In the statement, apart from the wording around the rate hike, we expect to see language alterations to the economic assessment. The drop in the jobless rate to 4.6%, which finally reversed all of the recessionary run-up and matched the lowest level since May 2007 (which was 4.4% and happened to mark the cyclical low of the previous expansion), will be emphasized. (The prior statement referred to the jobless rate as "little changed".) Also emphasized will be the recent run-up in market-based measures of inflation compensation. The 5-year forward measure of 5-year inflation has finally moved back above the critical 2% level for the first time since August 2015, when China's currency devaluation triggered a wave of global economic and market angst. (The prior statement said these measures "remain low".)

We also expect to see edits to the risk assessment, with "roughly balanced" transitioning to, simply, "balanced". Recall last December the change went from "nearly balanced" to "balanced". And now, weighing on the upside part of the scale, we have the prospects for stimulative fiscal policy. Importantly, we expect no changes in the Fed's forward guidance on policy rates and its balance sheet.

In the Summary of Economic Projections, the current profile for the fed funds' median projection is 1.125% in 2017 (2 hikes, after 1 hike to 0.625% in 2016), 1.875% in 2018 (3 hikes) and 2.675% in 2019 (3 hikes), along with a longer run level of 2.875%. Even if the recent downtrend in participants' projections continues (which we doubt), or if there are the beginnings of upward revisions (which is possible), most medians are surrounded by an adequate amount of at-the-median projections to protect them. An exemption is the longer-run median which is hovering between 2.75% and 3.00%, and could tilt either way. For example, if St. Louis Fed President Bullard actually contributed a longer-run forecast in addition to his lowest-dot profile (flat at 0.625% through 2019), the longer-run median would surely slip to 2.75%. As for the other economic projections, it will be interesting to see if participants do what we have done (see Sal's Thought) and tweak any of their calls for real GDP growth and inflation (both higher) and the unemployment rate (lower) to reflect the net upside economic risk presented by prospective fiscal policy.

Finally, in Chair Yellen's press conference, we expect her to emphasize three things. First, that the just-announced rate hike is not an indication of more regular moves to come (it's still data dependent). Second, the state of financial conditions matter in the formation of monetary policy (a stronger greenback and higher longer-term bond yields are doing some of the Fed's tightening work for them). Third, Fed policy is reactive, not proactive, with respect to fiscal policy prospects. No doubt many of the questions the Chair will field will be tied to the market, economic and policy implications of Mr. Trump's presidential victory and the Republican sweep of Congress. We suspect one key takeaway from all the day's policy pronouncements will be that we won't have to wait another year for rate hike 3.

BNP - The elephant in Fed Chair Janet Yellen's Dec. 14 press conference is how central bank will respond to changes in fiscal outlook and its effects on the economy. Impact remains "highly uncertain"; it will be difficult for Yellen not to say that easier fiscal conditions mean tighter monetary policy ones.

Fed to hike fed funds target by 25bps next week; challenge for policy makers will be reacting to uncertain fiscal stimulus that could "disturb" its forecasts for growth and inflation.

Expect little guidance beyond what's already in Fed's projections.

FOMC statement could include upgraded assessment in first paragraph, description of risks as appearing "balanced," and unanimous decision to hike

Too early for big changes to SEP; most FOMC participants will probably wait for more clarity before adjusting forecasts substantially; BNP expects no change to Fed's median dots

El Erian - The Dec. 14 announcement by the Federal Open Market Committee will be of particular interest, not only for what it says about any change in interest rates, but also for its signals about the path ahead.

Here are five things that are likely to emerge from the statement by the Federal Reserve's policymaking committee and the ensuing press conference by Fed Chair Janet Yellen.

QuickTake The Fed Lifts Off, Barely

The Fed will hike rates by 25 basis points, only the second increase in 10 years. This will be driven by additional progress toward its dual objectives -- full employment and inflation converging to 2 percent -- along with a desire to validate high market expectations about rates, and to respond to diminished headwinds from abroad (particularly from Europe, despite the results of last week's Italian referendum).

In terms of these dual objectives, the Fed's policy deliberations will be influenced by the decline of the unemployment rate to 4.6 percent along with the sluggish participation rate, despite continued solid monthly job creation. When it comes to inflation, the inclination to fully embrace the rise in market expectations will be tempered by the recent decline in the growth rate of average hourly earnings.

On forward guidance, the Fed will keep open the possibility of multiple hikes in 2017. This is due not only to its anticipation of a solid economic baseline for next year but also the new upside for growth and inflation associated with the recent policy announcements by President-elect Donald Trump. An important consideration here is the degree to which a more active fiscal policy, especially if led by productive infrastructure spending, would allow faster normalization of monetary policy.

For the first time in a long while, the FOMC's "blue dots" -- the expectations of individual members of the Fed board for the future path of rates -- will not migrate down significantly. Instead, they will remain broadly unchanged, while market expectations will continue to converge upward over time.

Nonetheless, the Fed's signals of a somewhat tighter monetary policy will be nuanced, and with good reason. U.S. central bankers will wish to wait for the details of the Trump administration's economic policies before moving toward significant alterations of a forward guidance that remains heavily "data dependent."

Like many others, I suspect that Fed officials are in the initial stages of internalizing the unexpected political and market developments of the last month. Central bankers will be intrigued by the possibility of a larger window for normalizing a monetary policy stance that, as it stands, carries unsettling risks of collateral damage and unintended consequences. But given their need to see how Trump's announcements translate into design and implementation, they will be careful not to move prematurely.

Danske - In line with consensus, we expect the Fed to raise the Fed funds target range 25bp to 0.50%-0.75% from the current 0.25%-0.50% at the FOMC meeting next week, as economic data have improved, the labour market is tightening and financial markets are calm. Markets have fully priced in such a rise.

Since everyone expects a Fed rate rise, the most interesting question is how many hikes to expect next year from the Fed. We expect the median 'dots' to stay unchanged, signaling two hikes in 2017 and three in 2018, as many FOMC members have said that they want to analyze Trump's actual economic plans before taking action. Also we think the FOMC members will be reluctant to raise the 'dots' prematurely, as they had to revise them down several times this year.

For the same reason, we do not expect major changes to the growth, core inflation or unemployment forecasts (the markets also tend to focus less on them). That said, one thing to look for is whether the Fed revises down its NAIRU estimate from the current 4.8%, as the unemployment rate is currently 4.6% but wage growth is still subdued (although it is trending up).

We see a chance that the longer-run median 'dot' will be revised down to 2.75% from 2.88% currently, as it needs only one FOMC member currently indicating an end rate of 3.00% to revise it down for the longer-run median 'dot' to be revised down as well.

It is important to remember that the Fed turns more dovish next year due to shifting voting rights as Loretta Mester, Esther George and Eric Rosengren lose their voting rights. Thus the median 'dot' for next year may actually overestimate the median 'dot' among voting FOMC members.

There are two vacant seats on the board right now. As President-elect Trump has criticized the low interest rate policy, it indicates he will nominate two hawks, although it is still unclear what he will do in practice, since a too hawkish Fed will hurt his plan to boost growth. That said, even if Trump nominates two hawks, it is not enough to tilt power to the hawks in 2017.