SAMPLE

The FOMC Interest Rate Decision

Hikes, Cuts, Holds, and Dot Plots — Trading the Most Consequential Few Hundred Words

Aiman Sterling

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Chapter 1: Introduction

Eight times a year, at 2:00 p.m. Eastern Time, the Federal Open Market Committee releases a statement — a few hundred words that set the target range for the federal funds rate, the single most consequential price in the world economy. Roughly every business day, somewhere on Earth, a loan's cost, a bond's valuation, a currency's level, or a company's earnings trace back to that target. Thirty minutes after the statement, the Fed Chair walks to a podium and takes live questions from the world's financial press.

If Jackson Hole is the annual seminar in how expectations move markets, FOMC decision day is the weekly lab where the same experiment runs at full frequency — faster, noisier, and with stakes that repeat often enough to compound skill (or losses) quickly.

This is the second book in the Impact News line. The first book, Jackson Hole and the Fed Chair Speech, built the core framework: markets move on the gap between reality and expectation, not on the event itself. This book assumes you know that framework and does not re-teach it. Instead, it applies the framework to the FOMC — and what makes the FOMC different is that it is not one event but a stacked sequence of information releases, each with its own script, its own gap, and its own market reaction, all compressed into a single afternoon.

The stack: what actually happens on decision day

Traders who have not studied the structure think of "the Fed decision" as one thing. It is five things, in order:

1. The rate decision itself — a new target range or a repeat of the old one 2. The statement — the committee's brief explanation, parsed word by word against the previous statement 3. On quarterly meetings: the Summary of Economic Projections and the dot plot — every committee participant's forecasts for growth, unemployment, inflation, and the rate path 4. The press conference — the Chair's opening remarks, then roughly thirty minutes of live, unscripted questions 5. The meeting minutes, three weeks later — a delayed, more detailed dump of the internal debate

Each layer gets its own market reaction. The most dangerous moments of the day are often not the first layer but the transitions between layers — when the statement said one thing, the dots said another, and the Chair's answer to the third question resolves the contradiction in a direction nobody had priced.

Why this event deserves its own book

Three features make FOMC day unique on the trading calendar:

Frequency with stakes. It happens eight times a year — often enough that a trader gets real repetitions of the same event, which means preparation process compounds. No other event combines this frequency with this market-wide scope.

The two-wave structure. Statement at 2:00, press conference at 2:30. Each wave carries information, and the second frequently reverses the first reaction. Traders who bet everything on the statement and go home are trading half the event. Traders who understand the whiplash pattern can protect themselves from it — and occasionally trade it deliberately.

Quantified expectations. Because the decision is a discrete choice between a small set of outcomes, market-implied odds of each outcome are published continuously in the run-up. No other impact event offers a cleaner, more numerically honest baseline against which to measure the gap.

What you will learn

The chapters ahead cover, in order: what the FOMC is and how decision day mechanically works; what hikes, cuts, and holds actually communicate; how to diff the statement against its predecessor; how to read the dot plot without being deceived by it; how the press conference behaves as an information source; how expectations form before the meeting and how to measure them; what history's decision days — from the 2015 liftoff to the 2024 first cut — teach about the framework; how to prepare during the blackout week; how to trade the two-wave day itself; how to manage risk when whipsaw is the designed outcome; and how to use the quiet six weeks between meetings to build the next script.

The book closes with the mistakes that repeatedly cost traders money on decision days, and a complete action plan for your next FOMC.

A note on what this book is not

It is not a Fed-critique or a macro-forecast book. Whether the committee's decisions are wise is outside our scope; our only questions are what the decision is, what was expected, and how the gap between them travels through markets. The tone is deliberately procedural — checklists, diffs, rules — because that is what the event rewards. Romance belongs in Wyoming in late August. Decision day is plumbing.

Let's start with the plumbing: what the FOMC actually is, who votes, and what happens inside those two-day meetings that produce the 2:00 p.m. statement.

Chapter 2: What the FOMC Actually Is

You cannot trade an institution's decisions well without understanding the institution. The FOMC is a committee, and nearly everything distinctive about decision day — the language, the dissents, the dot plot's noise, the press conference's diplomatic evasions — flows from that fact.

The mandate and the instrument

The Federal Reserve has a dual mandate from U.S. law: maximum employment and stable prices (conventionally interpreted as inflation around 2%). The FOMC is the body that pursues that mandate with its main instrument: the federal funds rate, the overnight rate at which banks lend reserves to one another.

Mechanically, the committee sets a target range — an upper and lower bound, a convention adopted in the wake of the 2008 crisis, when the target was effectively zero and the old single-point target became impractical. The effective fed funds rate then trades within that range, guided by the New York Fed's desk operations, which manage the supply of reserves to keep the market rate near the range the committee chose.

That is the whole instrument. Not a law, not a decree — an overnight lending rate, nudged into a range, from which every other rate in the dollar system derives by expectation. When you trade an FOMC decision, you are trading the single anchor of the dollar yield curve.

Who is in the room

The FOMC has twelve voting members:

- The seven governors of the Federal Reserve Board (including the Chair and Vice Chair), nominated by the President and confirmed by the Senate — though the Board frequently operates with vacancies, and the voting count adjusts accordingly - The president of the New York Fed, a permanent voter, reflecting the New York Fed's operational role in executing policy - Four of the eleven other regional Reserve Bank presidents, rotating annually in a published schedule

Beyond the voters, all remaining regional presidents attend the meetings, participate in the discussion, and contribute projections to the quarterly Summary of Economic Projections (Chapter 5) — meaning the "committee" that informs markets is larger than the committee that votes. This is a recurring source of confusion: a regional president can move markets with a speech all year, then vote in some years and not others.

Why traders care about the roster: the rotation changes the tilt of the voting committee from year to year. A slate of voters that leans hawkish can produce different decisions than the same economy would produce under a dovish slate. Serious Fed watchers maintain a mental map of who votes this year, who votes next, and where each member's biases sit — the same way sports bettors track not just the teams but the specific officiating crew.

The meeting calendar

The FOMC holds eight scheduled two-day meetings per year, published well in advance (the next year's calendar is posted on the Federal Reserve's website),

roughly every six to seven weeks, with one meeting per quarter followed by the full projections package. The cadence matters:

- Each meeting consumes the data that has arrived since the last one — typically two employment reports and two inflation reports, plus a stream of secondary data - Each statement is a fresh communication from the committee, written collectively in the meeting - Each press conference is the Chair's public interpretation of that collective product

There are also provisions for unscheduled, intermeeting actions — emergency rate changes outside the calendar. They are rare by design, and when they happen, they signal that something has broken: the pandemic-era emergency cuts of March 2020, covered in Chapter 8, are the modern reference case. By convention, emergency action is itself information: a Fed that breaks its own calendar is a Fed that sees fire.

How the two days work

The standard meeting runs across two days, with the decision released at the second day's 2:00 p.m. Eastern, followed by the press conference at 2:30 p.m. The first day is staff briefings and the economic outlook; the second day is policy discussion, the go-around of members' views, and the vote.

Two structural outputs deserve attention:

Dissents. The statement names any voters who opposed the action and in which direction — a hawkish dissent (wanted tighter policy) or dovish (wanted easier). Dissents are rare, and that is the point: they are high-information events. A single dissent can telegraph where the committee's median is drifting months before it moves, and clusters of dissents across consecutive meetings historically preceded turns in policy.

The consensus sentence. FOMC statements are famously short — a couple of paragraphs — because every word must survive a room of a dozen opinionated economists. The result is a document with almost zero wasted language, in which each phrase is a negotiated artifact. This is why statement diffing (Chapter 4) is so productive: changes cannot be accidental. If a sentence changed, somebody fought for that change, and somebody else stopped fighting it.

The supporting cast around the decision

The decision does not arrive naked. Around it sits a permanent communication architecture:

- The Chair's regular testimony to Congress (customarily twice a year, plus appearances) — the other marquee Fed speaking venue - Regional presidents' speeches and interviews throughout the year, outside blackout windows - The minutes — released three weeks after each meeting, a delayed but detailed record of who argued what - The Beige Book — an anecdotal survey of economic conditions,

published before each meeting - Committee-led reviews — occasional public framework reviews, like the one that produced the 2020 average-inflation targeting change discussed in Book 1

For the event-day trader, the first three chapters of that cast matter most: speeches set the script, minutes confirm or complicate it, and the Chair's testimony is the mid-quarter checkpoint.

The blackout period

One structural feature has direct tactical value: in the period before each meeting — by convention, roughly the second Saturday preceding the meeting through the Thursday after — Fed officials do not give public speeches or interviews about the economy or policy. This is the blackout period, and it does two things.

First, it creates a information vacuum in the final week: the script for the meeting freezes, because the people who write the meeting cannot speak publicly to update it. Whatever expectations existed entering blackout week are, to a first approximation, the expectations entering the meeting — modified only by data.

Second, it creates a data-only environment: in blackout week, the only inputs that can move the script are the scheduled releases themselves. When a CPI print lands inside the blackout window, it moves the meeting odds with no official commentary to absorb the shock — which is why blackout-week data releases tend to be extra volatile and why meeting odds can swing hard in the final days.

With the institution mapped, the next chapter addresses the decision itself — the one thing everyone watches and most people misread: what a hike, a cut, or a hold actually tells you.

Chapter 3: Hikes, Cuts, and Holds

The rate decision is the headline, the number in every notification. It is also, more often than beginners expect, the least informative part of decision day. This chapter explains what each of the three outcomes actually communicates — and why the one that changes nothing (the hold) can move markets the most.

The decision space

In the modern era, the committee moves the target range in increments of 25 basis points as its standard step, with 50-basis-point moves reserved for emergencies or clear regime shifts. The observable outcomes of a meeting are therefore limited:

- Hike: raise the range — usually by 25bp (or more, in urgent circumstances) - Cut: lower the range — again usually 25bp, occasionally 50bp when the committee is signaling urgency - Hold: keep the range unchanged

That is the entire headline space. Everything else — the statement, the dots, the press

conference — is the committee explaining and extending that headline choice. Which is why a trader who trades only the headline is trading the smallest part of the event.

What a hike actually communicates

A hike says: "Financial conditions need to be tighter than they are." The current setting is no longer sufficient for the committee's goals — inflation is too high, demand too strong, or both.

But the market's question at the moment of a hike is never "what did they do?" — it is "what did they signal about next time?" A 25bp hike with dovish accompanying language (softening descriptions of inflation, a hint that the committee is near the end of the cycle) can produce a rally. A 25bp hike with a warning of "additional firming" can produce a sell-off. The action is identical; the gap is in the forward guidance.

The hike's size carries meaning too. In the modern era, a 50bp hike is a deliberate escalation — a statement that the committee is willing to move faster than routine — while a sequence of 25s is the committee walking. The 2022 cycle, when the Fed delivered a rapid sequence of hikes including 75-basis-point steps as inflation surged, is the modern case study in step-size signaling: each acceleration of the step size was itself a communication event.

What a cut actually communicates

A cut says: "Policy needs to be easier than it is." The committee sees weakness — a softening labor market, a credit event, an inflation undershoot — that the current setting would not address.

The same forward-looking logic applies. A 25bp cut with a statement that frames it as a "mid-course correction" tells the market the cutting cycle may be short. A 25bp cut with a statement that says the committee is "prepared to act as appropriate" and dots that show a deep path of further cuts tells the market a cycle is beginning. The first cut of a cycle, in particular, is a regime event — historically, the market spends the meeting after the first cut repricing the entire path behind it.

The September 2024 cut of 50 basis points — covered in Chapter 8 — is the recent example: the initial move of the easing cycle was double the standard increment, and the debate it triggered (was 50 a sign of confidence in the disinflation, or alarm about the labor market?) shows how a single number can support opposite narratives. The resolution came not from the number but from the press conference.

What a hold actually communicates — the underrated outcome

The hold is where new traders lose the most conceptual ground. A hold is not "nothing happened." A hold is a positive decision with three distinct possible meanings, and the statement and press conference exist largely to tell you which one applies:

Hold, type 1 — "We're done." The committee believes the current setting is right for the foreseeable future. The market reacts to how long "foreseeable" sounds — the difference between "maintaining for some time" and "well-positioned to respond" is the difference between a range-trade and a repricing.

Hold, type 2 — "We're paused, leaning hawkish." The committee is watching, and the bias is toward hikes. Markets read the balance of risk language for the lean.

Hold, type 3 — "We're paused, leaning dovish." The mirror image: watching, biased toward cuts.

The market reaction to a hold is therefore among the most variable of any outcome — because a hold maximizes the weight of the qualitative layers of the event (statement tone, dots, presser) relative to the quantitative one. In a well-telegraphed hold with matching dots, nothing happens and the market churns. In a hold where the dots shift four quarters of easing into the path, the market reprices the whole curve — the 2023-2024 pre-cut period supplied repeated examples of a "hold" meeting that moved rate expectations significantly, because the dots and the Chair's answers, not the rate itself, carried the news.

The practical rule: when the expected outcome is a hold, pay more attention to the non-rate layers, not less. The rate was never in question; the information is entirely elsewhere.

The decision versus the expected decision

Book 1's framework applies with full force, with one FOMC-specific sharpening: because the outcome space is small and quantified, the market's expectation is unusually precise — often an implied probability above 90% for the expected outcome. This produces a distinctive decision-day dynamic:

- When the expected outcome arrives, the headline itself carries near-zero information. The reaction comes from the statement and presser — which is why "they cut 25 as expected" can still produce a violent move if the Chair's tone disagrees with the script. - When an upset arrives, the gap is enormous, because a sub-10% outcome occurring forces a repricing of not just this meeting but the entire assumed path. Upsets are rare — the modern Fed telegraphs heavily precisely to avoid them — but when one lands (an intermeeting emergency move, a surprise hike), the market's response is disproportionately large.

The rare upset and the common "expected outcome, unexpected tone" are the two decision-day patterns this book's preparation process is designed to catch. The next two chapters cover the layers that carry that tone: the statement, then the projections.

Chapter 4: Reading the Statement

The FOMC statement is one of the most analyzed short documents on Earth. A few

hundred words, eight times a year, every phrase dissected by thousands of professionals within seconds of release — and every phrase is a negotiated artifact of the committee's internal debate (Chapter 2). This chapter teaches you to read it the way the market's fastest readers do: as a diff against the previous statement, not as a standalone text.

Why the diff is the unit of analysis

Nobody trades the statement's absolute tone. A statement that reads "the labor market remains strong, inflation is elevated" is hawkish-sounding — until you notice the previous statement said "the labor market remains very strong and inflation is unacceptably elevated." Same register, two words softer: that is a dovish shift, and the market will trade the two deleted words, not the remaining paragraph.

The market's professional readers maintain the two statements side by side and read the changes. Deletions and insertions are the information; the stable text is the committee's standing view. Internalize this and you have most of the skill.

The anatomy of a modern statement

While wording varies by era, the modern statement has a stable skeleton:

1. The action paragraph — the rate decision itself, in one sentence 2. The assessment — the committee's reading of the economy: growth, the labor market, inflation (the famous triple assessment) 3. The risk/considerations paragraph — what the committee is watching and what would make it act ("in determining the extent and timing of adjustments...") 4. The vote — the action, the vote tally, and the dissents, if any

Each section has its own diff history and its own tells.

The action paragraph is usually the least informative part (Chapter 3): the decision is telegraphed by the time it prints. It earns a quick check for anything unusual — a different step size than expected, wording about the balance sheet that signals quantitative-tightling changes, or any mention of intermeeting conditions.

The assessment is where tone lives. The market tracks each phrase's history: what did they call the labor market this time — "strong," "solid," "slower pace of gains," "continued to ease"? What did they call inflation — "elevated," "remains above the committee's 2 percent objective," "has made progress," "in the labor market and goods market"? Each adjective occupies a known slot on a known dial, and the question is only which direction the dial ticked.

The considerations paragraph is the committee's forward guidance machinery. This is where phrases like "additional policy firming may be warranted" or "in light of the progress" live — the sentences that tell you the conditions under which the next meeting moves. A single connective can carry the message: "will be prepared to adjust" versus "will be prepared to act" versus "is committed to returning inflation."

The market reads this paragraph for the reaction function — the mapping from future data to future decisions.

The vote is scanned last, for dissents — and a dissent is read for its direction and its author, because a known-hawk dissenting dovishly is a louder signal than an unknown member dissenting predictably.

Building your own diff, in real time

The professional process is reproducible by anyone with a text editor and a plan:

1. Before the meeting, paste the previous statement into your working document. You already have it — it was the last event you studied. 2. At 2:00, when the new statement releases (the Federal Reserve's website posts it at the scheduled minute), paste the new text below the old one. 3. Diff them. Any competent text editor highlights insertions and deletions. If you work without tooling, read paragraph by paragraph, sentence by sentence, against your copy. 4. Classify each change on one axis: hawkish, dovish, or neutral-technical (occasional edits are plumbing — reworded staff notes, mechanical adjustments that carry no signal). 5. Total the diff. Five dovish ticks and one hawkish tick, or the reverse? Most statements are mostly stable with a handful of genuine edits, and the day's information is the sum of those few edits.

A diff can be completed in under two minutes by hand, faster with tools — and it is strictly superior to reading the first hot take that crosses your feed, because the hot take is itself one desk's diff, processed faster but with less care.

The classic tells worth memorizing

While the specific phrases evolve by era, several structural patterns recur across decades of statements:

- The insertion of "symmetrical" around inflation language — historically read as tolerance for overshoot in either direction; famously associated with the 2018 era, then superseded by the 2020 framework's average-inflation language - The removal of "accommodative" — when the committee stops describing policy as accommodative, it is signaling proximity to neutral — the 2018 episode in Chapter 8 turned partly on such descriptions - "Patience" and its equivalents — the family of words ("patient," "no rush," "well-positioned") that mark a pause. The market's question is always how long the patience is expected to last - Conditional easing language — "prepared to act as appropriate to sustain the expansion" arrived in 2019's pivot and became the template for easing-bias phrasing; the sentence's presence is a signal even when the rate does not move - Balance-sheet sentences — quiet additions about ending or starting runoff have historically moved markets as much as rate language, because they address the Fed's other, larger instrument

The statement is a committee document — read it like one

A final discipline that separates good readers from fast ones: remember that a

statement is negotiated by twelve people with different views. Changes often reflect the minimum edit that the majority could agree to. When you see a small, precise edit — one word changed, one clause added — ask what a room of disagreeing economists could not agree to say. The negative space is information: language that was considered and removed is a frequent tell of a committee leaning somewhere it did not yet commit to writing.

ABOUT THE AUTHOR

Aiman Sterling writes the Impact News series -- a trader's field guides to the market-moving events on the calendar, from the Jackson Hole symposium to the monthly data releases. The series' method is preparation over prediction: written expectations, regime maps, and honest ledgers, applied event by event.

The Impact News books follow a shared framework and stand alone in depth: each event gets its own mechanics, its own history, and its own action plan, with no repeated filler between volumes.

Aiman writes from the practitioner's side of the terminal: systems that survive the first minute, risk rules that survive the first loss, and the discipline of grading every event against the expectations written before it.