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Daily Commentary
Awaiting the Fed
28th October 2026

Awaiting the Fed

After the "worst day ever" on 23 October and doubts over the financial sustainability of the Artificial Intelligence boom, yesterday's session opened with a return of optimism towards the technology sector.

This time, the credit goes to **SK Hynix**.

The South Korean memory giant delivered a record third quarter, with revenue of **104.6** trillion won, exceeding 100 trillion for the first time in its history and more than quadrupling in a year, and operating profit of **83.3** trillion won versus around 77 trillion expected.

The operating margin rose to **80**%. Essentially, software-like margins achieved by manufacturing chips.

It was not the quarterly figures that ignited the markets, but what SK Hynix said about the future.

Demand for memory will continue to exceed supply until at least 2030.

Leading-edge technologies are becoming increasingly complex, and building a new factory takes years. Meanwhile, demand is surging.

For 2027, the company expects DRAM volumes (the working memory used in servers) to grow by around **25**% and NAND volumes (storage memory) by close to **30**%, driven by investment from major cloud operators, which is expected to increase by more than **60**%.

However, the detail that makes the difference is another one.

SK Hynix has signed multi-year contracts with 14 major customers, including the leading cloud operators, covering more

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House

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than half of its production capacity for 2027 and 2028, typically lasting five years and with prices set within an agreed range.
Visibility on volumes and prices, historically the Achilles' heel of a cyclical industry such as memory, **can now be measured in years, and prices are still rising**.
During the quarter, average DRAM prices increased by almost **30**% compared with the previous quarter, while HBM4, the high-bandwidth memory installed alongside AI chips, will surpass the previous generation by the end of the year.
Finally, as the icing on the cake, around **100 trillion won will be returned to shareholders in 2026**.

The reaction was immediate.
In Seoul, SK Hynix surged by as much as around **10**% and Samsung by **8.0**%, while the Kospi gained more than **6.0**%, reaching the 6,000 mark and triggering the upside sidecar mechanism, which suspends automated trading orders for five minutes when futures rise too sharply.
The wave is reaching a US market that had already rallied yesterday (Nasdaq +**1.18**%, semiconductors +**3.6**%, AMD +**5.5**%, Broadcom +**4.0**%, Micron +**2.8**%) and where Nasdaq futures are pointing to another positive opening this morning.
On Monday, Anthropic's IPO and Meta's capital increase provided an answer on the financing side.
Today, SK Hynix is providing one on the real-demand side, because **companies that need to buy memory chips are signing five-year contracts**.
This does not put an end to the doubts,

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but it adds another building block.

Against this backdrop comes the **Fed meeting**.
This evening, at 19:00 Italian time, the FOMC will announce its decision, followed at 19:30 by Fed Chair **K. Warsh**.
The consensus is almost unanimous: 94 out of 100 economists expect rates to remain unchanged at 3.75%–4.00%, while the market assigns a probability of around **10**% to a rate hike.
All 100 economists, however, expect a tightening move in December.

What has changed in a month? Almost everything, except inflation.
In September, the Fed raised rates for the first time since July 2023.
In October, a hotter-than-expected inflation reading arrived (core inflation +**0.3**% month on month versus 0.2% expected, with the annual rate rising from 2.4% to **2.6**%), and for one day the decision became a coin toss.
Then cracks began to appear among neocloud providers, and stress in AI-related credit markets did part of the Fed's work for it, with the ten-year yield falling back below **5.0**%.
As a result, the premium for a rate hike this evening has almost disappeared, shifting instead to December.

The problem now is **communication**.
In September, the Fed raised rates with core PCE, its preferred measure of inflation, running at 0.2% month on month.
The September reading, due around the time of the meeting, is expected to come

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in at **0.3**%, taking the annual rate to **3.1**%. How can a pause be explained when the inflation figure is worse than the one that justified a hike? And how can it be explained just six days before the midterm elections, with the President having already said that Warsh should have voted against September's tightening?
An unjustified pause would fuel suspicions that monetary policy is being driven by considerations other than prices and employment.

The compromise emerging from FOMC members' speeches has a name: **hiking at alternate meetings**.
C. Waller put it plainly: rate hikes "do not need to come at consecutive meetings, but within an acceptable timeframe".
J. Williams expects one more hike this year and none in 2027, while the hawks want more tightening, and sooner, with **L. Logan** estimating that at least another **50** basis points are needed.
December represents the compromise, and this evening we could once again see two or three dissenting votes in favour of an immediate hike.

Who is right about the rate path: economists, who expect one or two hikes, or the market, which is pricing in four, taking rates to a peak of **4.63%**?
Oil has already added **0.3** percentage points to inflation and, following the futures curve, would add another tenth of a percentage point by March.
According to the San Francisco Fed, **core inflation is currently split equally between supply- and demand-driven pressures**.

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Demand-driven inflation is not something policymakers can simply "wait out".

What should we watch tonight?

The statement will need to revise the wording on September's rate hike, linking any "further adjustments" to incoming data and the balance of risks.

The press conference will be brief, with no follow-up questions, but the risk is well known.

In July, Warsh's more dovish responses triggered selling in long-dated bonds.

A greater emphasis on inflation would mean a flatter yield curve, while more attention to financial conditions would mean a steeper one.

The ten-year yield is trading between 4.80% and 5.30%, hovering around the **5.0**% level.

Systematic trend-following funds are short, hedge funds are lightly positioned following losses on duration, and institutional investors have moved from underweight to "less underweight".

Finally, the Fed is not the only central bank in focus: the Bank of Canada also meets today, followed by the ECB and the Bank of Japan tomorrow.

In summary, tonight's Fed meeting matters because it must explain a pause that is difficult to justify.

However, **market direction will continue to be driven primarily by US earnings, with Microsoft and Alphabet reporting tonight after the close**, followed by **Amazon** and **Intel** tomorrow.

SK Hynix has told us that demand for computing power is there through 2030.

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House

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Tonight, the companies generating that demand will tell us whether spending is continuing.

For markets, whether they like it or not, that will matter more than Warsh's words.

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