PREVIEW - FOMC March Meeting Minutes to be released 7th April at 19:00BST/14:00EDT

MEETING RECAP: The FFR and IOER were left unchanged. The median dot still sees no rate hikes through the end of 2023, but four officials now project a hike in 2022 (vs one in December), while seven officials see a hike in 2023 (vs. five in December). While the Fed's dot plot continues to emphasise a 'lower for longer' stance, initially rates markets did not seem to buy into this completely, and after the rate decision, continued to price a probability of a hike in 2022 and saw three hikes in 2023. The Fed sees inflation rising to 2.4% at the end of this year, overshooting its target, although as senior officials have suggested, the central bank seems to be looking through its implications for rate hikes, and projects inflation will again cool in 2022. Near-term growth forecasts were upgraded, in line with a more optimistic outlook for the latter part of the year. The chair reiterated arguments he has made recently: the Fed is outcome-based with its policy reaction function, not date-based, and it wants to see substantive further progress in the labour market to achieve maximum employment, inflation at 2% not on a transient basis, and inflation on track to exceed the 2% target; he said that the fiscal impulse will accelerate return to max employment, and had really helped the Fed to avoid much of the scarring it was concerned about. Powell said it was not time to start talking about taper, and repeated heavily that the Fed would telegraph any changes to asset purchases in advance; we are not yet at that point. He dismissed the 'dots' signal ahead, saying that there was a lot of uncertainty about rate projections so far ahead, particularly in light of some of the uncertainties. Eurodollar futures started to show a "dovish" shift in Fed rate hike bets; the first hike is seen fully priced in by June 2023 and just two hikes are priced in for 2023 – before the meeting, 3 hikes were priced in for 2023 while a first hike was priced in as early as the latter half of 2022.

INFLATION: Fed officials have spoken frequently after the March FOMC, and participants have generally stuck to the script. There are still a few key questions traders will be asking; one of those is the extent to which the Fed will tolerate the recent upside in yields; if recent commentary is a guide, officials do not seem concerned, and are framing the rise as a function of the improving outlook and has generally intimated that it would stand back and monitor the rise as long as it doesn't threaten to tighten financial conditions. The updated economic projections revealed that the Fed sees PCE inflation jumping to 2.4% this year, before paring back next; officials have been keen to reiterate that any upside in inflation was likely to be temporary, and a function of pandemic base effects. "Of more interest," UBS says, "will be how many FOMC participants argue for inflationary pressures to be notable in 2022 and 2023." The bank explains that regardless, "the minutes will likely convey the idea that the threshold is extremely high for inflation data this year to spur any policy action; they will look through the data this year."

TAPER: There will also be focus on any chatter relating to tapering asset purchases; UBS observes that in January, many participants were publicly talking about scenarios for tapering asset purchases, and even some suggested timelines, although after the January confab, that chatter has diminished, with the phrase 'some time' being used frequently by officials to describe how long it might take to reach 'substantial progress' on its goals, which is the prerequisite for tapering (Kaplan and Bostic are the outliers, who have both suggested that the conversation should resume soon). Powell himself in March said that the Committee would begin discussing the timing of the taper more when the economy is demonstrably on track. "Given the distribution of dots from the dot plot, we suspect there is at least some interest within the FOMC to start the discussion on taper timing," UBS writes, "in particular we think that only 'most' participants will judge that it remains likely to take 'some time' for substantial progress to be achieved." That language would mark a departure from January's language which UBS thinks would bring the timing of the taper closer. "In our view, a 'few' FOMC members would have been comfortable putting more specifics on the criteria to satisfy 'substantial progress,' and 'some'" participants might have said that their outlook implies that more-concrete discussion will be needed in coming FOMC meetings."

HAWKISH DOTS: In the wake of the minutes, participants will likely resume speculation about who the hawkish dots on the plot belong to. The number of officials forecasting a hike in 2022 and 2023 has grown - UBS speculates that this will likely be the regional Presidents, with the Governors likely to be aligned to the Powell view. "If Board members are aligned with Powell as we think, moving the 2023 median largely requires Powell to change his view, as well," UBS argues, "his views will continue to be key."

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