NEWSQUAWK PREVIEW: January FOMC Minutes due Wednesday, Feb 16th at 19:00GMT/14:00EST

The Jan FOMC took place before both the rock-solid Jan NFP print and the above-forecast Jan CPI, so the Minutes will not reflect any hawkish shifts in sentiment driven by the most recent data. But, we will be looking out for any more conditions/guidance set out by the FOMC on key topics such as the rate path, increment of initial lift-off in March, and details or strategies around balance sheet reduction.

2022 RATE PATH: The FOMC signalled on Jan 26th that it is of a mind to raise rates at its March meeting. Chair Powell was less forthright on the pace of hikes, with markets currently pricing over six 25bps hikes by year-end currently, a ramp up from the four priced at the time of the meeting. Fed speakers themselves have been touting between three-to-five 25bps hikes this year, although those have been upward moving targets as the hot Jan data has rolled in. Fed's Daly has said that even four or five hikes this year would still be accommodative.

50BPS: Powell did not rule out the possibility of a 50bps rate hike if needed, nor did he rule out the notion that the Fed could hike at every meeting. Fed speak since has seen limited appetite for a 50bps move, although voting members have not been willing to rule out the possibility, stressing data-dependency. The minutes could give us more of the conditions required for such actions. There is also a possibility that a 50bps hike could occur after lift-off, as some speakers have suggested, albeit not a base case.

TERMINAL RATE: At the FOMC, some noted that Powell's answer in response to a question on whether the Fed needed to raise rates above its 2.5% estimate of the neutral rate could be indicative of a lengthier tightening cycle after Powell said that there is "quite a bit of room" to raise interest rates without threatening the labour market. Fed speak since has revolved around how fast and if rates need to be raised to (or even above) the neutral rate, and a bit of ambiguity around whether the 2.5% rate is still the neutral rate. Some speakers have even hinted that the neutral rate could be lower when taking into account quantitative tightening.

BALANCE SHEET REDUCTION

WHEN?: The Fed confirmed it would conclude its asset purchases in March, as planned, opting against ending the programme early, perhaps in light of the market turmoil seen around the time of the meeting, and the Fed's desire to avoid springing surprises. The Fed's guidance suggested that the balance sheet will begin to be reduced after the hiking cycle has begun; Powell avoided committing to anything specific at this point, and said that the strategy of how the Fed would reduce the balance sheet would be discussed in coming meetings. Powell went on to say they would have another discussion at the March meeting, and at least one more after that (May meeting). Many analysts expect the run-off to begin in June or July.

COMPOSITION & PACE: Powell and the rest of the Fed have said the pace of the reduction is likely to be quicker than the USD 50bln/month cap (USD 30bln of USTs and 20bln of MBS) the Fed used in its 2017 run-off. A common expectation is USD 100bln, consisting of USD 70bln of USTs, while there is some divergence among market expectations and Fed speakers on whether to use a phase-in period. The Fed chair suggested that eventually, the composition of the balance sheet would be primarily composed of Treasuries. Some Fed speakers, mainly hawks, have been alluding to potential active asset sales in addition to the planned, passive roll-off. There has been no explicit talk about direct selling of Treasury holdings, but there have been suggestions around MBS selling in order to accelerate the move towards a Treasury-only portfolio. The minutes should hopefully confirm some of these themes. Finally, with the balance sheet currently around 36% of GDP, some Fed officials have previously argued that the size could be reduced to 20% in the long-term, which some think implies the balance sheet could be reduced to around USD 2.8trln over a 5yr window. So forecasts for the end-state, or "normal", size of the balance sheet is an issue we await further clarity on.