PREVIEW: FOMC Minutes due Wednesday 6th April 2022 at 19:00BST/14:00EDT

- **Focus heavily on details around balance sheet reduction**
- **Risk of hinting at a gentle run off if the Fed hikes by 50bps in May**
- **Eyeing commentary about appetite for 50bps hikes**

SUMMARY: The FOMC Minutes will be critical for gauging the parameters of the balance sheet runoff process after Fed Chair Powell told us more details would be available within the release. Details eyed include the pace of the runoff, where expectations for the maximum monthly caps lie between USD 60-100bln per month of Treasuries and MBS. Whether the caps start small and grow or begin immediately at the max will be key, particularly for signalling, given the formal announcement will likely be made alongside an expected 50bps rate hike at the May FOMC. Other details include the asset composition of the runoff, any size or calendar guide for completion, and the Fed's appetite for outright asset sales. On rates, with market pricing for a 50bps May hike at 80%, and probabilities of more 'double' hikes at future meetings also growing, commentary on the debate for the larger increments will be eyed given the appetite seen in some Fed Speak in recent weeks.

MARCH FOMC: The FOMC raised rates by 25bps to 0.25-0.50%, as the market had expected; Bullard dissented, calling for a larger 50bps move. Updated projections envisage the FFR target rising to 1.75-2.00% by the end of the year, and rates are expected to rise to 2.75-3.00% next year, staying at that level in 2024 before falling. The Fed lowered its estimate of the longer-run rate by one-tenth to 2.4%, implying a front-loaded rate hike cycle. The Committee introduced language explicitly referring to the Ukraine situation, noting its uncertainties to the economy, but could present upward risks to the inflation profile. Inflation forecasts were raised in the short term, while the median growth forecast for 2022 was cut.

BALANCE SHEET (B/S): The market will be looking to the minutes for any discussion on B/S reduction after Powell said at his Q&A that he is "sure there'll be a more detailed discussion of our [B/S reduction] in the minutes". The Fed is largely expected to make the formal announcement at the May FOMC. The March FOMC didn't provide many new details aside from a light calendar guide, saying the Committee "expects to begin reducing its holdings... at a coming meeting." Chair Powell even said plans could be finalised as soon as May. Powell was coy about going into too many details then but he did say the runoff could look very similar to the Fed's prior B/S reduction, but faster, whilst assuring that the Fed would be mindful of the broader financial context, and would avoid adding to the uncertainty. Analyst expectations for the runoff process lie between USD 60-100bln per month total of Treasury and MBS. The Fed will also likely maintain optionality, noting they can adjust the pace as required. While these are the expected maximum monthly caps, it will be interesting to see if there will be a run-in period or whether the max caps will begin immediately. Other factors to watch out for include the composition (pace of Tsys vs MBS), if it will let its USD 300bln plus of T-Bills runoff (or maintain its bill holdings and just reduce coupons), any size/calendar guide for QT completion (BBG survey saw B/S at USD 8.5tln by 2022-end and 7.5tln by 2023-end, but not clear on final size), and debate around asset sales given a few Fed officials have been calling for MBS sales in the future. Meanwhile, with expectations for May leaning towards a 50bps move from the Fed, it raises the possibility of a run-in period for the monthly caps to refrain from being viewed as overly hawkish. While many Fed officials have said they are on board with hiking rates and implementing B/S runoff at the same meeting, the magnitudes of both will be key. Fed's Brainard spoke on Tuesday, essentially cementing the May balance sheet reduction announcement while she also said it will be at a "rapid pace". Brainard said she expects significantly larger caps and a much shorter period to phase-in maximum caps compared to 2017-2019, implying there will be a phase-in period, but a fast one.

50BPS: Money markets are currently pricing a 50bps rate rise in May with around 80% certainty in the wake of the March FOMC, and commentary from other Fed officials, who also seem open to 50bps rate moves at the May meeting– or meetings ahead (plural), to combat high inflation. At the press conference, Chair Powell was upbeat on the economy, arguing that although growth projections were cut, GDP was still seen growing at above-trend rates and strong enough to handle tighter monetary policy. Analysts noted that Powell's remarks at a separate event after the FOMC meeting sounded more hawkish (note: at the FOMC meeting, Powell is understood to be speaking on behalf of the Committee, whereas when he is delivering remarks outside of the FOMC press conference, his remarks are seen to be more his own views). Powell said that the FOMC was able to move rates in 50bps increments if that is what is required to manage inflation pressures and heavily suggested that this could happen at a coming meeting or meetings, implying more than one 50bp move this year is possible. This was a hawkish upgrade of his views from the FOMC meeting, where he seemingly advocated a "steady" approach. The minutes will thus be eyed to gauge the FOMC's broader views on moving in larger than 25bps increments.