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

- **Fed hiked 75bps to 1.50-1.75% target range after troubling inflation data catalysed a late hawkish shift.**
- **Minutes gauged for colour around future hike increments (50/75bps for July) and whether there was appetite for a 100bps hike in June.**

WHAT HAPPENED: At its June meeting, the Fed lifted rates by 75bps to 1.50-1.75%, and said it continued to anticipate that ongoing hikes would be appropriate, adding that it was strongly committed to returning inflation to its 2% objective. A key statement change saw the line “with appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2% objective and the labour market to remain strong” removed and replaced with “the Committee is strongly committed to returning inflation to its 2% objective.” The late shift to 75bps was catalysed by the hot May CPI print alongside consumer inflation expectation surveys rising further. There was even some market chatter of a potential 100bps hike in the days leading up to the meeting so it will be interesting to see in the minutes if there was any appetite for that.

JULY HIKE: The statement gave no explicit signal regarding the size of the Fed’s July move, although officials (including Chair Powell) have been suggesting that it is likely to be a debate between a 50bps and a 75bps rate hike. Powell said in his presser that he does not expect moves of 75bps "to be common", although money markets appear to be tilting towards the latter for July already, even after the May PCE report showed inflationary pressures continue to cool. But there is a general expectation amongst Fed officials for a reduction in hike increments heading into year-end as policy enters 'restrictive' territory.

DOT PLOT: The updated economic projections pencil in rates rising to 3.25-3.50% by the end of this year; that implies the possibility of a 75bps hike in July, followed by a 50bps hike in September, and then 25bps at its November and December meetings. However, it could also be interpreted as three 50bps rate rises followed by a 25bps move. The forecasts see rates peaking at 3.75-4.00% in 2023, implying a front-loaded hiking cycle with the prospect of a further two 25bps rate rises next year. The Fed then envisages rates falling back in 2024. Fed’s Bullard, who votes in 2022, recently said that the Committee’s playbook may look similar to the 1994 cycle, where aggressive rate hikes were then followed by rate cuts the next year; the minutes will be looked at to see if this is a widely held view on the Committee. Elsewhere, the median estimate of the neutral rate was marginally raised to 2.5% from 2.4%, which still implies that policy will move into restrictive territory by the end of this year. Accordingly, the FOMC revised down its projections of growth to 1.7% this year vs its 2.8% forecast made in March, and has pencilled in growth at the same rate next year, before rising in 2024 to the longer-run growth rate of 1.9%. The projections suggest a soft landing, something Powell said in the Q&A that he still thinks can be achieved, but did concede that outside events have made it harder.