# Preview: FOMC Minutes due Wednesday 4th January 2023 at 19:00GMT/14:00EST

**SUMMARY**: The December meeting minutes will be released on Wednesday 4th January 2023 at 19:00GMT/14:00EST. The minutes will be eyed for commentary on the terminal rate with the latest dot plot projections pencilling in a peak at 5.1% (FFR of 5.00-5.25%) from the current 4.25-4.50% - implying rate hikes are to continue through either three 25bp rises or another 50bp and a final 25bp hike. The minutes will also be gauged to see if there is an appetite to slow the pace of hikes once again, to 25bp in February, which will help determine the tightening pace to the peak rate. Any language within the minutes that suggests how long rates are held at the peak will also be key, although it will likely reiterate a data-dependent approach, but Fed's Daly had suggested 11 months is a reasonable time frame and that everyone on the Fed sees rates at terminal throughout 2023.

**MEETING RECAP**: The Fed voted unanimously to lift the Federal Funds Rate target by 50bps to 4.25-4.50%, as expected, and downshifting the pace of rate hikes. The Committee, however, raised its expectation of where rates will peak, now seeing the terminal rate at 5.1% (in the 5.00-5.25% bracket) vs the 4.6% (the 4.50-4.75% bracket) it was projecting in September. That implies 75bps more tightening in this cycle, which will be seen in 2023 where the Fed expects to hold rates at terminal; after that point, the Fed expects to cut rates and projects the Federal Funds Rate target at 4.1% by the end of 2024. The updated rate forecasts suggest the central bank wants to keep rates elevated for longer as it battles above-target inflation (historically, it has remained at terminal for between 3-15 months, and on average 6.5 months). Its statement was little changed, although it still guides for "ongoing increases" in interest rates; some had flagged an outside risk of this language being tweaked to something along the lines of "some further" rate increases. Elsewhere, the growth profile was upgraded a little for 2022, but lowered for both 2023 and 2024; the inflation forecasts were raised across the horizon, though it still sees long-term PCE at 2.0%. On jobs, the central bank revised its unemployment projection a little lower for this year (3.7% vs 3.8%), although nudged its view higher for 2023 and 2024, where unemployment is seen peaking at 4.6%, before falling to 4.5% in 2025.

**TERMINAL**: With rates pencilled in at 5.1%, markets are not buying into the Fed's narrative with the peak rate priced in by markets at 4.94% after a slew of cooling inflation prints. The Fed has noted many times that the risk of doing too little is greater than doing too much, while they can jawbone hawkish language to help keep inflation expectations anchored. Powell in the Press Conference did note that the projections are not a concrete forecast and can be adjusted based on the data. Any revisions to their views will be seen in the March Summary of Economic Projections and will incorporate several more inflation and jobs reports. SGH Macro's Fed Watcher Tim Duy wrote the Fed could, in March, raise the terminal rate forecast, "or even lower it to 4.875% by declaring a March rate hike the last hike of the cycle". This would be more in line with the market's view of the terminal rate between 4.75-5.00%. The argument then looks at how long rates should be kept at the terminal level. Fed's Daly had said 11 months would be reasonable and that everyone at the Fed expects rates to be held at the peak for all of 2023, while Bullard suggested rates will need to be kept at a sufficiently high level all through 2023 and into 2024. Note, historically, it has remained at terminal for between 3-15 months, or on average 6.5 months. In the minutes, economists at Citi "look for divergence between the doves and the hawks regarding how high the terminal rate should go, as well as what could determine the size of the hike at the February meeting (we expect 50bps)."

**PACE**: The path to terminal is now less important than the ultimate level of rates, but with the Fed slowing to 50bp in December it opens up the possibility of a further slowing in February to 25bps. With rates now in restrictive territory, albeit not "sufficiently restrictive", the Fed has the room to slow the pace of rate hikes to see the impact of their policy on the economy as they digest incoming data, particularly inflation. Powell did state he thinks policy is getting to a "pretty good place" and close to sufficiently restrictive. Any commentary in the minutes on the appetite for further slowing the pace of rate hikes will be of note. At the December meeting, there had been an outside risk the Fed could alter its guidance somewhat from "ongoing increases" in interest rates, to something along the lines of "some further" rate increases, to signal they are inching closer to the terminal rate, but they (as expected) maintained guidance. Nonetheless, it will be interesting to see if there was any appetite among the FOMC for a slight tweak to its guidance or if there was any discussion on the matter.

**DATA**: The latest inflation data has been encouraging, the November CPI came in cooler than expected and the prior on both headline and core metrics. PPI data, however, was hotter than expected. The latest NY Fed Consumer inflation expectations were also encouraging, with 1yr expectations seeing a record M/M drop to 5.2% from 5.9%, the 3yr falling to 3.0% from 3.1%, and the 5yr declining to 2.3% from 2.4% - all of these reports were incorporated in the latest FOMC meeting and thus will be within the minutes. Meanwhile, the Final UoM inflation expectations survey (post Dec-FOMC)


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saw a downward revision, the 1yr inflation expectation is now at 4.4% (prev. 4.6%) and the 5yr fell to 2.9% from 3.0% - both welcome signs for the Fed. The Fed has noted that the core services pricing data is the main concern and will likely remain elevated until the labour market and wages slow to a level that is consistent with the 2% target. SGH Macro's Duy notes "The Fed intends to engineer a substantial rise in the unemployment rate such that wage pressures moderate to something consistent with 2% inflation." Note, the December NFP report is due on Friday. Powell in the December press conference said he expects a very large drop in inflation in 2023, but the jump-off point at the start of the year is higher, but by the middle of the year, we should see lower inflation from the housing services sector. Growth has remained strong, the final Q3 US GDP release was revised higher to 3.2% from 2.9% despite tighter policy throughout 2022, albeit there are concerns for growth in 2023 and fears of a potential recession. Analysts at Oxford Economics forecast a mild recession this year, starting in Q2, noting "The Fed is determined to bring inflation down to 2% and will tolerate a recession to achieve that goal".