Preview: FOMC rate decision due Wednesday 1st February at 19:00GMT/14:00EST; Press conference at 19:30GMT/14:30EST

OVERVIEW: The analyst consensus sees the FOMC lifting its Federal Funds Rate target by 25bps to 4.50-4.75%, with a small minority noting the potential for a larger 50bps hike increment. Money markets are pricing the smaller move with almost certainty, but further through the year, are underpricing the December SEP-implied terminal rate of 5.1% and are even pricing risks of Fed easing at the back half of 2023. Chair Powell is likely to stay the course around the fight against inflation not being over and the "higher for longer" policy stance, guiding to more hikes in the future despite the latest encouraging disinflationary data, but it's seen as unlikely that any efforts to jawbone tighter financial conditions will be successful barring a change in the data, with markets themselves in data-dependency mode. Meanwhile, Powell may provide the Fed more optionality to cater for a 'soft landing' by leaning into recent Fed Speak regarding the potential for disinflation absent a meaningful rise in unemployment.

STATEMENT: The Fed is priced with almost certainty for a 25bps hike to take the FFR to 4.50-4.75%, with a less than 5% chance of a 50bps hike implied by money market pricing. The statement is expected to be updated to reflect the deceleration in the hiking pace and acknowledge the cumulative tightening already in place. With speculation building over whether the Fed will follow through with its guided rate hike path to 5.00-5.25%, it's worth keeping an eye out for any adjustments to its line that "ongoing increases in the target range will be appropriate", albeit it's probably a bit premature.

POWELL: The Fed Chair is likely to reaffirm the party line of more work needing to be done on inflation. He likely highlights the promising string of declines in the inflation data, but also warns that it is still far above the 2% target, whilst expressing concerns over the stubbornly high services inflation. Perhaps more interestingly will be if Powell warms further towards the possibility of falling inflation without the need to cool the labour market. Members of the Board, from dove Brainard to hawk Waller, have recently alluded to the possibility of such. So, if Powell looks to cement that line of thinking, that the Fed doesn't require rising unemployment to bring inflation back down, recession risks/pricing are likely to reduce greatly, something that could be a driving factor in the recent pick-up in stock appetite given the data lately has evolved in favour of a 'soft landing'.

DATA: Core PCE Y/Y has now declined for three consecutive months, sitting at 4.4% in December, and down from cycle peaks of 5.4% in February 2022, building belief that the peak may be in. A lot of that decline has been spurred by falling goods prices, masking the continued strength in the services sector, particularly core services ex-housing, which many Fed officials keep pointing to as an area that needs to be addressed. That decline has also come against the backdrop of initial jobless claims reaching 9-month lows and limited progress in JOLTS job openings falling to support a loosening in the labour market, but at the same time, wage growth data has shown some signs of cooling, with Tuesday's Employment Cost Index for Q4 a key focus after the promising wage data in the BLS employment report. Meanwhile, fears over an imminent recession have abated, with US GDP rising again in Q4 (+2.9%), and despite the dip in November and December real personal consumption, as well as December retail sales, real-time credit card data has picked up again into January and earnings commentary has been sanguine on the consumer.