NEWSQUAWK PREVIEW: FOMC Minutes due Wednesday 12th April at 19:00BST/14:00EDT

Since the March FOMC, fears around the banking crisis have cooled, with no additional failures reported, reducing chances of an imminent policy shift from the Fed with the labour market still tight and inflation still well above target. WSJ's Timiraos reported the March decision to hike was one of the closest calls at the FOMC in years, coming down to the wire as officials kept track of the fallout from SVB and questioned whether they should pause. Fed officials have since been cautious about getting ahead of, or forecasting, any sharp falls in credit availability, instead sticking to the status quo in terms of the need to bring down inflation whilst caveating that there is great uncertainty hanging over the banking sector. The minutes will provide us with more insight into how the recent banking failures played into the policy decision and the extent to which the overhang of the events may cap the degree that officials tighten further. Officials have been reticent to get into specifics about how much they see reduced bank lending as a substitute for Fed rate hikes, and it's unlikely the minutes will give us much either, although they should reveal a nod to the relationship as some officials have pondered in public comments lately.

STATEMENT/SEP REVIEW: The FOMC lifted its Federal Funds Rate target by 25bps to 4.75-5.00%, in line with market expectations. Its updated economic projections left the terminal rate view unchanged at 5.1%, and its statement removed the reference to the Committee anticipating that ‘ongoing increases in the target rate will be appropriate’, though added that ‘some additional policy firming may be appropriate’. Its median view for where rates will be in 2024 was nudged up to 4.3% from 4.1%. The inflation profile was raised for this year, though left unchanged for 2024 and 2025, while the core inflation view was slightly nudged up for this year and next. The Fed expressed confidence in the banking system, stating that it was ‘sound’ and ‘resilient’, adding that the recent developments were likely to result in tighter credit conditions and will weigh on economic activity, hiring and inflation. Some had expected that the Fed might slow its pace of balance sheet reduction, though the statement said that it would continue to reduce Treasury and MBS holdings in line with its previous announcements. Market expectations for the Fed rate hike trajectory continued to run more dovishly than the dots, with money markets pricing less than one more 25bps hike this cycle, where the May 3rd meeting has an implied probability of 75% for a hike, and 25% for no hike. Markets are also pricing the year-end rate at 4.40% (vs Fed's 5.1% dot).

PRESSER/Q&A REVIEW: Fed Chair Powell, when asked about the updated SEPs, said that no participants had rate cuts in their baseline scenario for this year. He also took care to emphasise the uncertainties presented by the current situation, and essentially made the case that the Fed would be deciding policy based on incoming data, meeting-by-meeting, and will be based on the actual and expected effects of the credit tightening. Powell said that if the Fed needed to push rates higher, it would, but for now, officials see the likelihood of credit tightening, and the impact of this can be seen as another hike. Powell still sees a path to a soft landing, and the Fed is trying to find it.

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