NEWSQUAWK PREVIEW: FOMC rate decision due Wednesday, May 3rd at 19:00BST/14:00EDT; Powell Presser and Q&A at 19:30BST/14:30EDT

SUMMARY: The Fed is all but set to hike the FFR by 25bps to 5.00-5.25% (95% implied hike/5% unchanged via money markets), with the consensus leaning towards a pause in June with priced risk of an additional hike (20% probability). What the statement will indicate and what Powell will guide towards will be reflective of great internal debate amongst the FOMC, albeit the Fed is likely to prioritise optionality above all. Pressure from doves to halt the tightening process amid uncertainty around the banking sector and nearing 'sufficiently restrictive' policy is likely to see adjustments to the statement to provide a pathway for a pause, but given nothing in the economic data since the March FOMC has justified a tightening slowdown, a halt at the May confab, and perhaps even June too, could come too soon, albeit a tail risk.

DATA: Nothing in the economic data has given the Fed much leeway to halt its tightening cycle, with Core PCE firm at 4.6% Y/Y in April as the prior two months were revised higher, and while the Fed-favoured gauge of core services ex-housing took a dip in April, it remains just one month's progress for a volatile data point. Meanwhile, the labour market continues to hold firm, with only a slight rise in jobless claims from historically low levels, while non-farm payrolls are sitting at a 3m average of 345k jobs added per month, levels well above pre-COVID norms and inconsistent with a cooling labour market. The rise in the Q1 Employment Costs Index only adds to fears around a wage/price spiral. Hawks will lean into the stubbornly firm data and fears of it reaccelerating, while doves may argue that policy lags are yet to make their mark.

BANKING STRESS: In the fallout from SVB, Signature, and now First Republic, dovish lines of thought over financial stability and credit availability concerns have grown in weight. However, WSJ's Timiraos on May 1st wrote that so far, officials have seen little evidence that the banking crisis has led to a significant pullback in lending affecting economic activity, alluding to the results from the new Fed's senior loan-officer survey (which won't be released publicly until after the FOMC, but policymakers will already be made privy to), taking off some of the dovish risks to the meeting. But the lags through which a credit crunch works were always unlikely to be apparent so soon. "Officials who are more concerned about the impact from any tightening of credit conditions are likely to push for a signal that the Fed will suspend rate increases", Timiraos adds. Officials such as Goolsbee (voter) and Kashkari (voter) have stressed the need for caution.

GUIDANCE: The Fed nearing its terminal rate was already a topic before the banking crisis emerged, with officials touting the proximity of the ambiguous "sufficiently restrictive" zone for policy. WSJ's Timiraos warns, "After this week, the calculations could flip. Officials could need to see signs of stronger-than-expected growth, hiring, and inflation to continue raising rates". As such, adjustments to the statement will be in particular focus, specifically the line, "The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive", looks vulnerable to a softening - for instance, JPM sees "some" additional policy firming changing to "any" additional policy firming. Powell's Presser/Q&A will, as always, be crucial for additional guidance and colour.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com