Preview: FOMC Rate Decision and Dot Plot due Wednesday 20th March 2024 at 18:00GMT/14:00EDT; Powell Presser/Q&A at 18:30GMT/14:30EDT

The FOMC is set to keep rates unchanged at 5.25-5.50% on Wednesday. The market's focus will be on the accompanying Dot Plot with risks the 2024 median forecast may nudge higher to two cuts from December's three cuts to reflect the recent upside surprises in inflation and growth data. Money markets have pulled back hawkishly this year to align with the Fed's December forecast of three cuts in 2024 and now do not have a rate cut fully priced in until July, although a June cut is implied at 60%, where the majority of analysts expect. There is also a risk the neutral rate forecast moves higher. Given the "bumpy" progress on inflation, Chair Powell is likely to remain coy on specifics of rate cut timing after he said the Fed was "not far" from nearing the confidence to begin rate cuts before the hot February inflation data. We also expect to get a more formal acknowledgement that discussions have begun, but not a decision, on the tapering of the balance sheet runoff.

RATE EXPECTATIONS: The Fed is all but certain to keep rates unchanged on Wednesday, with money markets priced with certainty for no change. The central bank is expected to begin cutting rates in June, according to 72 of 108 economists surveyed by Reuters (17 thought May was more likely, while 19 said July or later), although note this survey was conducted before the latest upside surprises in the February CPI and PPI data, with core inflation plateauing in recent months above target. Money markets are not pricing in a full rate cut until July, with a 63% implied probability of a rate cut by June. For 2024 as a whole, money markets are pricing in 70bps of rate cuts, or just under three rate cuts, in what has been a dramatic unwind of the aggressive rate cut pricing seen going into the end of 2023 where six cuts were priced with strong expectations of the first cut being in March.

STATEMENT: The Fed already made some significant dovish changes to its statement at the January meeting to reflect a more balanced outlook to cuts vs hikes, so there are no expectations for any further changes on Wednesday, especially given the recent bump in the data. On the policy guidance, the FOMC in January removed the line "in determining the extent of any additional firming that may be appropriate" to a more dovish/balanced "in considering any adjustments to the target range", but it gave a hawkish caveat that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably towards 2%".

DOT PLOT: The accompanying SEPs are expected to see the median 2024 rate dot left unchanged at 4.6%, implying three 25bp rate cuts from the current FFR. However, there remains a non-trivial risk it could nudge up to 4.9% given that it would require just two officials who saw three rate cuts in December 2023 to nudge up their rate forecasts for the year to shift the median higher. That would be reflective of the expected increase in the PCE and GDP forecasts for the year in the wake of recent data. There also remains a risk that the longer-term rate dot moves higher too given the increased discussion by policymakers that the neutral rate may be higher now.

Bloomberg's survey of economists' median dot expectations between March 8th-13th (before PPI, and some responses may have been before the CPI):

- FEDERAL FUNDS RATE: 4.6% in 2024 (unchanged vs. December), 3.6% in 2025 (unchanged), 2.9% in 2026 (unchanged), 2.5% in the longer run (unchanged).
- CHANGE IN REAL GDP: 1.7% in 2024 (prev. 1.4% in December), 1.8% in 2025 (unchanged), 1.9% in 2026 (unchanged), 1.8% in the longer run (unchanged)
- UNEMPLOYMENT RATE: 4.1% in 2024 (unchanged vs. December), 4.1% in 2025 (unchanged), 4.1% in 2026 (unchanged), 4.1% in the longer run (unchanged)
- PCE INFLATION: 2.5% in 2024 (prev. 2.4% in December), 2.1% in 2025 (unchanged), 2.0% in 2026 (unchanged), 2.0% in the longer run (unchanged)
- CORE PCE INFLATION: 2.5% in 2024 (prev. 2.4% in December), 2.2% in 2025 (unchanged), 2.0% in 2026 (unchanged)

BALANCE SHEET: No balance sheet decision is expected at this meeting, although we are expecting a more formal acknowledgement that discussions have begun on the tapering of the balance sheet runoff. The majority of analysts expect a formal announcement on the tapering of the runoff to be made at the June meeting. On the composition, note that both Chair Powell and Governor Waller have said recently that they see a case for shortening the maturity of the Fed's security holdings and would prefer not to hold MBS.

POWELL: Chair Powell last spoke on policy in his appearances in the House and Senate in early March (ahead of the February inflation data), largely echoing his and his colleagues' prior commentary, and given the recent data bump, he will likely sing from the same hymn sheet on Wednesday, refraining from getting into specifics on the exact timing of the first rate cut. He said in Congress that the Fed does not expect it will be appropriate to reduce the policy rate until they have greater confidence in inflation moving sustainably towards 2%, but he did say inflation is “not far” from where it needs to be for the Fed to have the confidence to start cutting interest rates. He repeated it is likely to be appropriate to begin dialling back policy restraint at some point this year, and that the policy rate is likely at the peak for this cycle. Powell stressed that rate cuts will depend on the path of the economy and data will determine when cuts commence. On inflation, he repeated the Fed is not looking for inflation to go all the way down to 2%, but he does need to see more evidence, and that means some good inflation readings, explaining that the Fed is not looking for better inflation readings than what has already been, but for more of what has been seen. Powell said that if the economy evolves as the Fed hopes, rates will need to come down "significantly" over the coming years.