Preview: FOMC Rate Decision due Wednesday 1st May 2024 at 19:00BST/14:00EDT; Powell Presser/Q&A at 19:30BST/14:30EDT

The FOMC is expected to hold rates at 5.25-5.50% at its May meeting announcement on Wednesday at 19:00BST/14:00EDT. There are no new SEPs due at this meeting. Strong incoming data, which alludes to sticky inflation and a largely robust growth trend, are likely to keep the central bank cautious in rushing towards easing policy. That said, the recent meeting minutes stated that almost all participants judged it would be appropriate to pivot to a less restrictive policy stance at some point this year, though there has been a notable shift in tone in recent weeks' Fed Speak from officials to the hawkish side. Accordingly, traders will be attentive to the degree to which Chair Powell – whose presser begins at 19:30BST/14:30EDT – looks through recent upside in inflation data to gauge when it may begin its rate-cutting cycle. There are also expectations for the Fed to confirm its QT taper plans, although there are some tail risks that may be delayed given the data.

Money markets are pricing 35bps of rate cuts through the end of this year, having shaved off around 50bps of implied cuts since the March FOMC, which has come after a string of hot data, including the March inflation figures, NFP, retail sales, ISM manufacturing survey, and Q1 GDP, where gyrations in the trade balance masked the strong underlying consumer trend. The FOMC's March economic projections continued to pencil in three rate reductions this year despite the hot January and February inflation data, taking the FFR target to between 4.50-4.75%, but many officials have been talking a hawkish game ahead of the pre-meeting blackout after the hot March inflation figures, adding to the material pullback in money markets.

On April 16th, at a forum in Washington in his last pre-meeting FOMC after the hot March inflation data, Fed Chair Powell made hawkish remarks, saying that the performance of the US has been quite strong, warning that the recent data has shown a lack of further progress on inflation this year and has not given the Fed greater confidence, and said that if higher inflation persists, the Fed can maintain current rate as long as needed. He also made no references to the hot Q1 inflation data as being a "bump in the road", language that he had previously used to overlook the hot January and February inflation figures.

With rates likely to be on hold and Chair Powell likely to take a more cautious approach, traders will be attentive to any updates on the central bank's plan to taper the pace of its balance sheet runoff. The recent meeting minutes stated that the vast majority of participants judged that it would be prudent to begin slowing the pace of the runoff "fairly soon", with a few participants preferring to continue the current pace of runoff until indicators showed reserves were nearing "ample level". Participants generally favoured reducing monthly runoff pace by roughly half from recent overall pace, implying that the Treasury runoff cap could be lowered to USD 30bln/month vs the current USD 60bln. On MBS, participants saw little need to slow the runoff, preferring to adjust cap on Treasuries redemptions.