Fed Hikes Rates 25bps, Maintains QT, Removes Hawkish Guidance

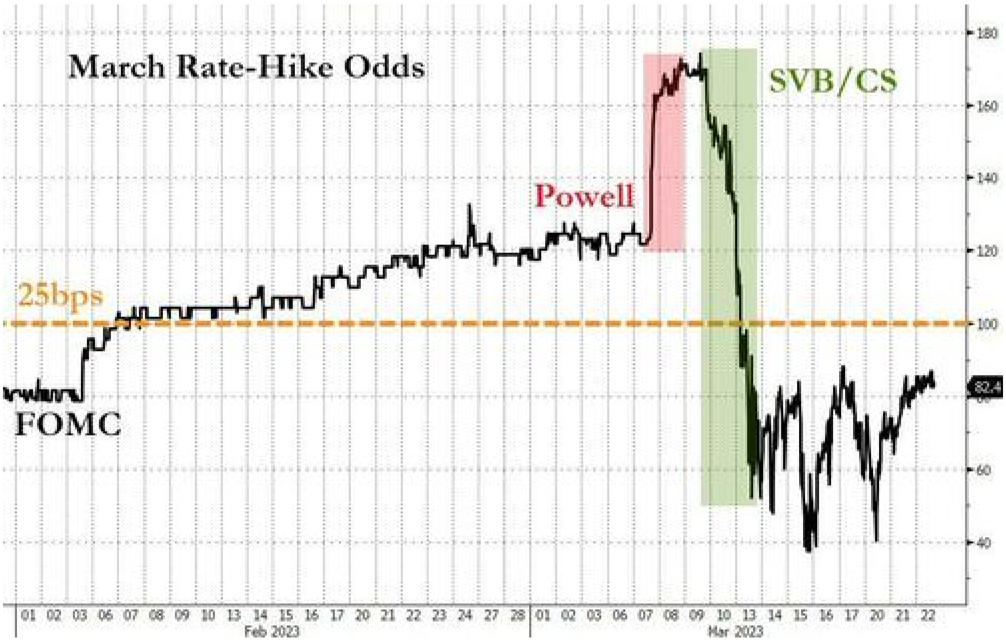
Description

Tl;dr: Fed **hiked 25bps** and **maintains QT** (as expected), and left the **terminal rate (via the DotPlot) unchanged.** However, it shifted a s**lightly more dovish guidance** on future policy hikes and an admission that the impact of its monetary policy could impact banks.

* * *

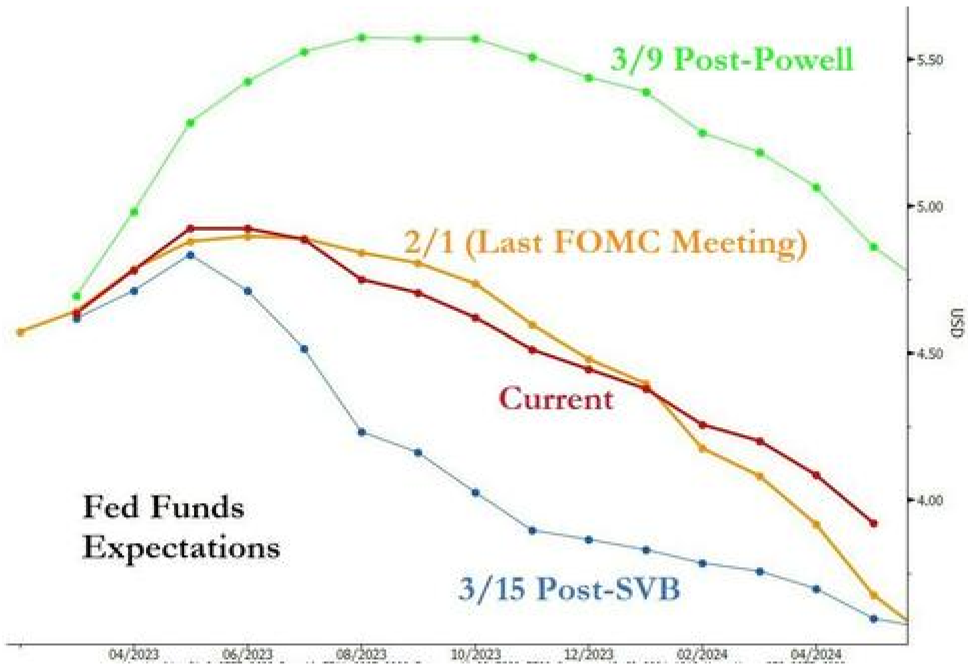
A lot has changed since The Fed last met on February 1st and decided to hike 25bps. Between Powell's hawkish hearings with Congress and the dovish-inference of a global financial system crisis, the market's expectations for The Fed's actions today have swung wildly – but ironically, are basically unchanged since the Feb 1st meeting.

At its most hawkish the market priced in a 75% chance of a 50bps hike (after Powell's hearings). That then collapsed to a 63% chance of a 'pause' by The Fed following the collapse of SVB and CS. The last week has seen expectations rise back to 80% or so of a 25bps hike…



Source: Bloomberg

Interestingly the **entire Fed Funds curve is back at very similar levels to where it stood at the last FOMC meeting** – after a wild ride in between…

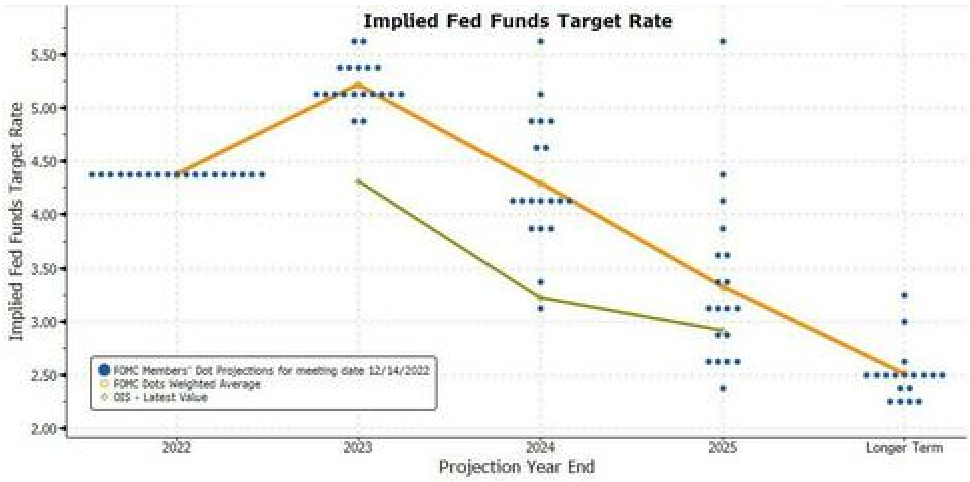


Source: Bloomberg

Crypto and tech stocks have soared since the last FOMC meeting (but more driven by the post-SVB fallout) while gold and the dollar have managed modest gains while bond (prices) are broadly lower…

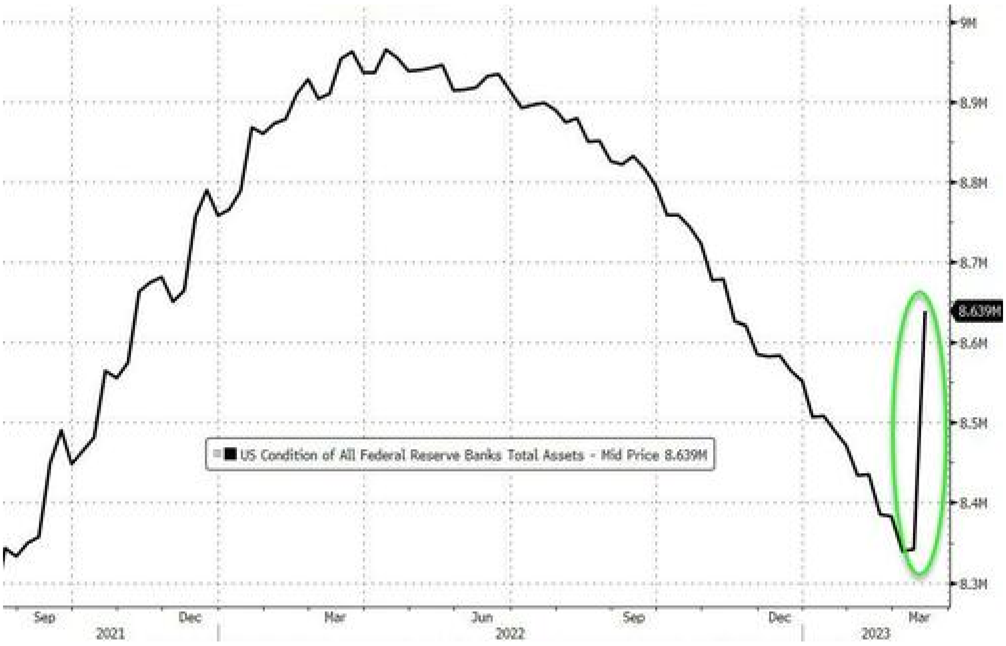
Source: Bloomberg

The **Dot-Plot gets a makeover today** with expectations for considerably larger variations (and a dovish drift) from where it stood in December…



Source: Bloomberg

And, of course, The Fed Balance Sheet exploded higher…



Source: Bloomberg

Goldman Sachs economists looked at **how the Fed has set policy in the past when stresses in the financial system threatened to disrupt lending** and economic activity. Excluding severe recessions, they looked at 1966, 1984, 1994-95 and 1998. **The central bank eased monetary policy in two of the four cases and paused tightening in a third, they found.**

They write:

> *"Overall, the historical record suggests that the FOMC tends to avoid tightening monetary policy in times of financial stress and prefers to wait until the extent of the problem becomes clear, unless it is confident that other policy tools will successfully contain financial stability risks."*

So, here's what The Fed said…

Fed **hiked 25bps** as expected…

> **FED RAISES BENCHMARK RATE 25 BPS TO 4.75%-5% TARGET RANGE*

Fed will **keep QT going** as expected…

> **FED WILL CONTINUE SAME PACE OF REDUCING TREASURY, MBS HOLDINGS*

Fed offers some **dovish guidance**…

> …language about ***“ongoing increases in the target range”*** will be appropriate removed and replaced with ***“some additional policy firming may be appropriate”***

Fed gives a nod to the banking system in a new addition to the statement…

> The **U.S. banking system is sound and resilient.** Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. **The extent of these effects is uncertain.**

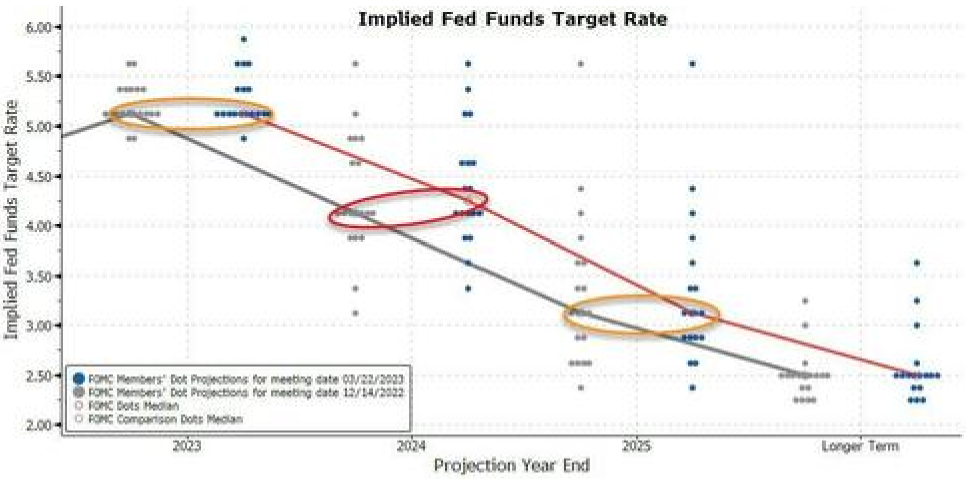
Finally, and perhaps a smidge more **hawkishly**…

> *The Fed* ***removed inflation “has eased somewhat”*** *and just left “remains elevated”*

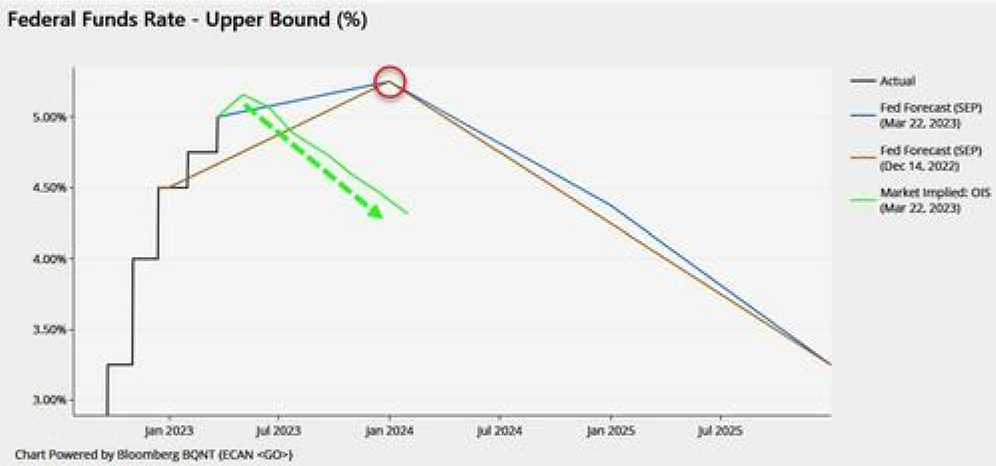
The Fed also added this new line, perhaps in a nod to their own impact on bank balance sheets (and how much more data dependent they may become):

> ***“The Committee will closely monitor incoming information and assess the implications for monetary policy”***

And as far as the new ‘dots’ go, the **terminal rate is unchanged** from the December dots…



There is now **one official who sees rates ending this year between 5.75% and 6%, compared with zero in December,** and there is a big difference between the OIS market and the FOMC’s 2023 median dot.



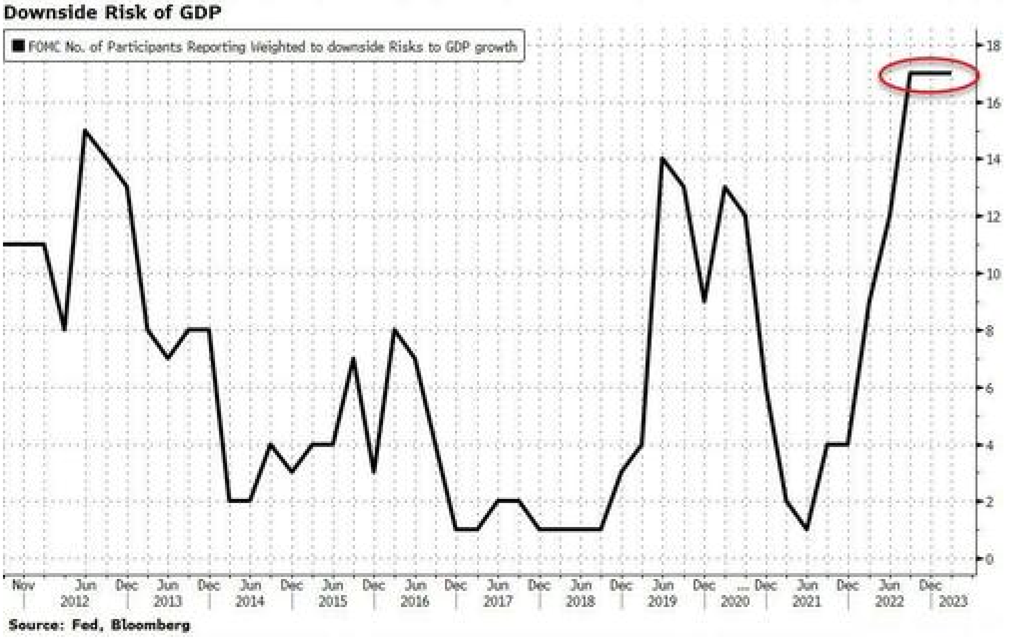
Additionally, **unemployment decreases a little, inflation up.** Doesn't seem like the last two weeks has changed the view of the FOMC.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2023

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
December projection	0.5	1.6	1.8	1.8	0.4–1.0	1.3–2.0	1.6–2.0	1.7–2.0	-0.5–1.0	0.5–2.4	1.4–2.3	1.6–2.5
Unemployment rate	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
December projection	4.6	4.6	4.5	4.0	4.4–4.7	4.3–4.8	4.0–4.7	3.8–4.3	4.0–5.3	4.0–5.0	3.8–4.8	3.5–4.8
PCE inflation	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
December projection	3.1	2.5	2.1	2.0	2.9–3.5	2.3–2.7	2.0–2.2	2.0	2.6–4.1	2.2–3.5	2.0–3.0	2.0
Core PCE inflation[4]	3.6	2.6	2.1		3.5–3.9	2.3–2.8	2.0–2.2		3.5–4.1	2.1–3.1	2.0–3.0	
December projection	3.5	2.5	2.1		3.2–3.7	2.3–2.7	2.0–2.2		3.0–3.8	2.2–3.0	2.0–3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6
December projection	5.1	4.1	3.1	2.5	5.1–5.4	3.9–4.9	2.6–3.9	2.3–2.5	4.9–5.6	3.1–5.6	2.4–5.6	2.3–3.3

In contrast with less concern about inflation, **the number of policy makers who think the risk to the economy is on the downside remains at a record high**.



See the full redline below…

Recent indicators point to modest growth in spending and production. Job gains have ~~been robust~~picked up in recent months~~,~~ and are running at a robust pace; the unemployment rate has remained low. Inflation ~~has eased somewhat but~~ remains elevated.

~~Russia's war against Ukraine is causing tremendous human and economic hardship and is contributing to elevated global uncertainty. The Committee is~~The U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4-~~1/2 to 4-~~3/4 to 5 percent. The Committee will closely monitor incoming information and assess the implications for monetary policy. The Committee anticipates that ~~ongoing increases in the target range will~~some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the extent of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; ~~Lael Brainard;~~ Lisa D. Cook; Austan D. Goolsbee; Patrick Harker; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; and Christopher J. Waller.

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. Main

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