Daiwa Capital Markets

U.S. FOMC Review

- FOMC minutes: “almost all” participants supported a pause, but more tightening likely in 2023

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June FOMC Meeting

- The minutes from the June meeting of the Federal Open Market Committee shed light on Fed officials’ decision to maintain the target range for the federal funds rate at 5.00% to 5.25% while also signaling a bias toward further policy restriction in 2023 through an adjustment to the dot plot (The median dot for 2023 increased to 5.625% in June from 5.125% in the March dot plot). Officials noted that inflation was still “unacceptably high,” but they acknowledged that time was required to better assess the effects of “significant cumulative tightening in the stance of monetary policy and the lags with which policy affects economic activity and inflation.” However, while additional time to assess the cumulative effects of policy tightening could prove useful, “almost all participants” indicated in their forecasts that additional increases in the federal funds rate in 2023 “would be appropriate.”

- Despite indicating that additional hikes in the federal funds rate at upcoming meetings could be viewed as likely, the minutes noted that decisions to adjust monetary policy would be based on the “totality of incoming information.” That is, upcoming meetings should considered “live.” Policy is not on a pre-set course.

- Meeting participants discussed several risk-management considerations that could influence the trajectory of policy, including the effects of stresses in the banking sector in March and the recent developments regarding the federal government’s debt ceiling. With regard to the banking sector, participants noted that acute stresses had eased, but “some” saw it as important to continue to monitor credit conditions and see how potential tightening on access to credit weighs on economic activity. On the topic of the debt ceiling, “a number of participants” saw the suspension of the debt ceiling as removing an area of uncertainty in the outlook. “A few” participants noted that a surge in Treasury bill issuance to replenish the Treasury General Account to the Treasury Department’s preferred level could put upward pressure on money market interest rates. Rates could increase above those in the overnight RRP facility leading to a decline in usage.

- Interestingly, participant projections for the trajectory of the economy continued to differ from those of Fed staff. While officials do not currently foresee a recession, staff forecasts call for a mild downturn in the fourth quarter of 2023 and first quarter of next year. With regard to inflation, the outlooks of Fed officials and staff were more closely aligned. Fed staff projected the headline PCE price index to increase 3.0 percent this year, while the core was forecast to rise 3.7 percent. Inflation is expected to remain moderately above 2.0 percent next year before returning to target in 2025.

- All told, we view the FOMC minutes as maintaining a hawkish bias. Officials wanted time in June to assess the effects of cumulative policy tightening thus far on the economy, but we view them as seeing the economy as resilient thus far and as assessing risks on inflation as skewed to the upside. Thus, the adjustment to the dot plot.

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