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Fed minutes lean hawkish, but we don't expect a hike

The minutes to the July FOMC meeting were expected to be relatively hawkish given three members voted for an immediate hike. However, the minutes reflect the views of the overall committee. We strongly suspect the members that are voting this year lean more dovish, especially given the poor jobs, benign inflation and weaker consumer numbers of late

The minutes to the July FOMC meeting were a bit hawkish, but that was to be expected after three members voted for a rate hike in July

The Fed remains anxious about inflation with further improvements sought

The minutes to the July Federal Reserve FOMC policy meeting lean a touch hawkishly, but that was to be expected given three officials had dissented. Beth Hammack, Lorie Logan and Neel Kashkari had all voted for an immediate 25bp interest rate increase, while nine other committee members voted to hold the fed funds range at 3.5-3.75%. The minutes showed "several participants" favoured a rate hike and "many" assessed that rate hikes would likely be needed if inflation didn't decline. In the end though "most" supported holding rates steady.

With respect to the balance of risks for employment and growth, they were viewed as being “skewed to the downside”, while for inflation the risks to Fed forecasts are “skewed to the upside”. In terms of inflation, the things officials are watching, energy prices and developments in the Middle East are of top concern. There is also a wariness that the AI investment binge could also keep inflation elevated due to higher microchip prices feeding through into inflation more broadly via smart phones, computers and electricity. However, "several" did say the tariff price hike pass through was now complete.

Other topics that were raised included proposals from Chair Warsh that the Fed could cut the number of policy decisions from eight to six per year. This would give officials time to accumulate more information and to “consider strategic policy issues”. There was also discussions on potential balance sheet policy changes that should be considered in respect of market functioning and financial stability. Both are topics that are being addressed by the appointed task forces, and we will hear more on this in the New Year.

But the voting members lean more dovishly and we think they will remain on hold

Despite the slightly hawkish tone, we must remember these minutes reflects views held before the latest round of poor jobs numbers, subdued inflation prints and disappointing retail sales/consumer confidence figures. Moreover, these minutes represent the broad views of the Fed and not everyone votes at the FOMC meetings.

The June Fed forecast update showed a 9-9 split within the committee on whether they felt they will need to raise interest rates this year or not. Chair Kevin Warsh did not submit a view, with the strong suspicion being that he would come down on the side opposed to hiking if he really had to.

Of the nine that think they will hike, we suspect only three are voting members this year – and they are already voting for a hike! The implication is that none of the other six predicting they will hike have a vote on the matter this year. For the Federal Reserve to deliver an interest rate hike, the jobs and inflation data needs to convince those that were saying “no hikes” to change their minds. That needs stronger jobs numbers and more elevated inflation, which we are not predicting. Hence, our view that the Fed will instead keep rates on hold well into 2027.

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