PREVIEW: FOMC Rate Decision due Wednesday 17th June 2026 at 19:00BST/14:00EDT

- No rate change expected
- Focus on whether the easing bias is removed from the statement
- Warsh's first press conference as Chair is likely the biggest event risk

RATE EXPECTATIONS: The Fed is widely expected to keep the target range for the federal funds rate unchanged at 3.50-3.75%. Economists largely expect rates to remain on hold this year, with 72 of 102 respondents in a Reuters survey conducted between June 4th and 9th seeing no rate changes through end-2026. Money market pricing had, at one stage, fully priced a rate hike by year-end amid firmer oil prices during the Iran conflict, above-target inflation, and a resilient labour market following the strong May nonfarm payrolls report. However, with the US and Iran subsequently reaching an agreement to end the conflict, which is set to be signed on Friday, and oil prices retracing sharply from their highs, markets have pared some of those expectations and currently price around 18bps of tightening by year-end, implying a 72% probability of a 25bps hike. The vote split on rates is expected to be unanimous, particularly with former Governor Miran no longer on the Board and Kevin Warsh now serving as Chair. Bank of America does not expect Warsh to advocate for a rate cut at his first meeting.

STATEMENT: With rates expected to remain unchanged, attention will focus on the policy statement and updated projections ahead of Warsh's first press conference as Chair. At the April meeting, three voting members (Kashkari, Hammack and Logan) dissented in favour of removing the easing bias from the statement to better reflect the possibility that the next move could be a hike rather than a cut. Since then, Governor Waller has also adopted a more hawkish tone and stated that the easing bias should be removed, although he is not currently advocating for a hike. Given Waller's support for changing the language, attention will be on whether other policymakers join the previous dissenters in backing a revision to the statement. The current guidance reads: "In considering the extent and timing of additional adjustments to the target range for the federal funds rate...". Bank of America expects the easing bias to be removed and does not anticipate any dissents. The bank suggests the Committee may omit the word "additional" and potentially remove references to the "extent and timing" of future adjustments. Another possibility is replacing the language with a more neutral reference to "any adjustments". BofA also notes that Warsh could push to remove the sentence entirely, given his longstanding criticism of forward guidance. Aside from the policy language, the description of the labour market may also be updated following the recent run of stronger payroll reports. BofA argues it is no longer appropriate to state that "job gains have remained low", suggesting the statement could instead note that "job gains have picked up and the unemployment rate has been little changed in recent months."

PRESS CONFERENCE: Warsh's first press conference as Fed Chair is likely to be the most important event risk of the meeting. During his congressional testimonies, Warsh repeatedly stressed his opposition to excessive forward guidance and argued that the Fed's balance sheet has played an unhelpful role in achieving its dual mandate. He has stated that the balance sheet should be smaller and that the Fed should not hold long-dated Treasuries, preferring interest rates to remain the primary policy tool. On inflation, Warsh has argued that tariffs are not the primary cause of elevated inflation and has questioned whether current inflation measures accurately capture underlying price pressures. While he has said little publicly about the current labour market, it is notable that he has appointed conservative policy analysts Paul Winfree and Daniel Hall as advisers. Winfree previously served in Trump's first administration and authored a Project 2025 chapter that was critical of the Fed's employment mandate and broader role in monetary policy.

The key risk for markets is that expectations for a dovish Warsh have become elevated. Bank of America expects Warsh to argue that the Iran conflict does not materially alter the underlying inflation outlook and that policymakers should largely look through any energy-related price shocks. The bank also expects him to highlight the potential disinflationary impact of AI-driven productivity gains and to reiterate that policy should remain forward-looking. However, BofA does not believe recent data is enough to justify advocating near-term cuts and instead expects Warsh to make the case for patience while leaving the door open to easing later this year. Although, BofA cautions that if Warsh instead acknowledges inflation as a growing problem, markets may move to price future hikes with greater conviction. Warsh has repeatedly stated that President Trump did not influence or predetermine his views on monetary policy. BofA also suggests Warsh may announce plans to reduce post-FOMC press conferences to a quarterly schedule rather than holding one after every meeting.

ECONOMY: Recent economic data initially prompted markets to fully price a rate hike by year-end. The May nonfarm payrolls report marked a third consecutive month of solid job growth and reinforced the view that the labour market remains stable, if not outright strong. Inflation remains above target, with headline measures boosted by the recent energy shock while underlying inflation has remained sticky around the 3% area. However, following the recent US-Iran agreement, oil prices have largely pared from the conflict-driven peaks, leading some economists to suggest that May may prove to be the peak in headline inflation, assuming the Strait of Hormuz reopens smoothly, and energy markets remain stable. Even with energy prices retreating, inflation remains above the Fed's 2% target. BofA expects Warsh to place greater emphasis on alternative inflation measures such as the Dallas Fed trimmed mean, currently running around 2.35%, while reiterating his view that policymakers need to improve how inflation is measured.

SEP: The meeting will also bring updated economic projections. Recent data suggest inflation forecasts may be revised higher while unemployment projections could move slightly lower, although Bloomberg survey sees them left unchanged. The median dot plot is expected to shift from one rate cut in 2026 to signalling no policy changes this year. Attention will also focus on the distribution of dots, particularly whether the number of participants forecasting hikes begins to approach those forecasting cuts. Such a shift would reinforce the increasingly hawkish tone evident in recent Fed communications. Under Chair Powell, markets were frequently reminded that the dot plot is not a formal forecast. With Warsh now leading the Committee, investors will be watching closely for any change in how the SEP is presented or discussed. Within the confab, it is also worth noting former Chair Powell has remained on the Governing board, so he will be present, give his own forecasts, and may also provide his opinion through the discussion. Bank of America does not expect Warsh to submit his own projections, arguing he has not had sufficient time to develop a full forecast. It is also possible that Warsh declines to participate in the SEP process altogether given his scepticism towards forward guidance. Below is the consensus for the SEPs compiled by Bloomberg:

Federal Funds Rate

- 2026: (exp. 3.625%, prev. 3.4%)
- 2027: (exp. 3.375%, prev. 3.1%)
- 2028: (exp. 3.125%, prev. 3.1%)
- Longer run: (exp. 3.125%, prev. 3.1%)

Change in Real GDP

- 2026: (exp. 2.2%, prev. 2.4%)
- 2027: (exp. 2.3%, prev. 2.3%)
- 2028: (exp. 2.1%, prev. 2.1%)
- Longer run: (exp. 2.0%, prev. 2.0%)

Unemployment Rate

- 2026: (exp. 4.4%, prev. 4.4%)
- 2027: (exp. 4.3%, prev. 4.3%)
- 2028: (exp. 4.2%, prev. 4.2%)
- Longer run: (exp. 4.2%, prev. 4.2%)

PCE Inflation

- 2026: (exp. 3.5%, prev. 2.7%)
- 2027: (exp. 2.4%, prev. 2.2%)
- 2028: (exp. 2.0%, prev. 2.0%)
- Longer run: (exp. 2.0%, prev. 2.0%)

Core PCE Inflation

- 2026: (exp. 3.1%, prev. 2.7%)
- 2027: (exp. 2.3%, prev. 2.2%)
- 2028: (exp. 2.0%, prev. 2.0%)