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Powell not satisfied

Last week's Federal Reserve policy-setting meeting was one of the most intriguing in years. Going chronologically, the Federal Open Market Committee (FOMC) meeting that started Tuesday must have been lively, as the release of the policy statement on Wednesday afternoon indicated that no fewer than four members dissented from the vote to hold rates at 3.50-3.75%. That was the most dissent in more than three decades. One member favored a 25 basis-point rate cut, and three objected to the easing bias in the statement's language. There is little doubt that they were concerned that the Iran conflict will push US inflation higher.

Then Jerome Powell stepped up to the podium for his likely final press conference as Fed Chair and dropped a bomb: he will stay on the Board of Governors until the Department of Justice (DOJ) investigation has concluded to his satisfaction. A sitting Chair remaining after the end of a term has not happened since 1948. It will make for future intriguing FOMC meetings when Kevin Warsh takes over as Chair after the Senate confirms him, as expected. Powell's gambit is that the DOJ will bow to pressure and end its probe with finality. The waiting game could last until early 2028, when his term as governor expires.

Those FOMC members worried about inflation were justified the following day, when the March Personal Consumption Expenditures Index (PCE) showed inflation increased 0.7% month-over month (m/m), higher than February's 0.4%. Core PCE rose 0.3% m/m. This bump in the Fed's preferred inflation metric came as the Iran war had just begun. With the Strait of Hormuz effectively closed, it is likely price pressures increased in April.

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