Fed will raise rates more aggressively if needed

Federal Reserve Chair Jerome Powell on Monday delivered his most muscular message to date on his battle with too-high inflation, saying the central bank must move "expeditiously" to raise rates and possibly "more aggressively" to keep an upward price spiral from getting entrenched.

In remarks that sent financial markets scrambling to recalibrate for a higher probability of the Fed lifting interest rates by a half-percentage point at one or more of its remaining meetings this year, Powell signaled an urgency to the central bank's inflation challenge that was less visible than just a week ago, when the Fed delivered its first-rate hike in three years.

"The labor market is very strong, and inflation is much too high," Powell told a National Association for Business Economics conference. "There is an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level, and then to move to more restrictive levels if that is what is required to restore price stability."

In particular, he added, "if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so."

The U.S. dollar strengthened Tuesday, particularly against the Japanese yen, after hawkish comments from Federal Reserve chair Jerome Powell raised expectations of a faster tightening cycle.

Two-year, five-year, 10-year and 30-year U.S. Treasury yields all climbed to their highest levels since 2019 early Tuesday, widening the gap on pinned Japanese yields, and USD/JPY soared 0.8% to 120.44, above the physiologically important 120 level to a six-year high. The pair has gained more than 4% this month on the different policy stances.

“USD/JPY, having broken through 120.00, had 123.00 and 125.00 potentially in its sights. Any thoughts that the Ministry of Finance will intervene were complete nonsense unless moves in the yen become extremely disorderly,” said Jeffrey Halley, OANDA’s Senior Market Analyst for Asia Pacific.U.S. stocks fell, and traders -- already betting on at least a quarter-point interest rate increase at each of the year's remaining six Fed meetings -- moved to price in a better-than even chance of half-point interest rate increases at each of the Fed's next two meetings in May and June.

The dollar gains were not only against the yen, with EUR/USD down 0.4% to 1.0975 and GBP/USD 0.2% lower at 1.3137. Both currencies have been hit by expectations of weaker European economic growth as the Ukraine war rages on.

European Central Bank President Christine Lagarde stated on Monday that the ECB and the Federal Reserve will move out of sync in the foreseeable future, as the war in Ukraine has vastly different effects on their economies.

"Our two economies are in a different place in the economic cycle, even before the war in Ukraine," Lagarde told a financial conference. "For geographical reasons, Europe is way more exposed (to the war) than the U.S..".

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