

Proactive Group

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Trending: Fed gets hawkish, bank stocks gain

Minutes from the Federal Reserve's April monetary meeting have blown away hopes that rates would remain capped for the remainder of 2016 as the majority of regional central bankers said a June hike would be "appropriate" if data allows.

In what some analysts view as a 180 degree turn, the minutes suggest that Chairman Janet Yellen's soothing remarks after rates were left unchanged last month were only a good bluff or intended to steady US markets.

Under the veneer it is now evident that Yellen is only first among equals as regional Federal Reserve banks made public views hitherto held behind closed doors.

The minutes suggest the US central bank is leaving open the option to hike rates at the June 14-15 meeting in Washington if the economic data and job market conditions continue to strengthen while inflation heads towards the 2% target.

The minutes noted that global economic and financial hazards had receded since the Fed's March meeting, even if many participants still saw continued "downside risks" to the US.

The problem with this - or perhaps the silver lining - is that many economists believe that the economic evidence will be too vague by the time of the mid-June meeting. So to that extent it means that the central bank may yet do nothing next month.

Furthermore, external, overseas risks have not been extinguished. Quite apart from ongoing problems in China, the so-called Brexit vote on the UK's continued membership of the European Union is seen as a risk factor. The campaign will be entering its final week in the UK just as the Fed sits to decide on rates.

Markets have priced in one interest rate hike from the Fed before the end of the year, but this week's US CPI inflation data and a more hawkish tone from several Fed policymakers have led to analysts now seeing the Fed more likely to tighten monetary policy.

Before the minutes, markets saw the likelihood of an interest rate rise in September at 57%, up from 49% on Tuesday.

In spite of being priced in, the immediate reaction to the Fed minutes on Wednesday was harsh.

A positive S&P 500 turning negative, last down 0.43% at 2,038, while banks all came to the top of the risers board. Overall top S&P500 gainers were E*Trade Financial Corp (NYSE:ETFC) and Citizens Financial Group (NYSE:CFG) both up 5.6% and Citigroup (NYSE:C) up 5.5%. In fact the only riser in the top 10 not to be a bank was Western Digital (NYSE:WDC).

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The top of the Dow Jones Industrial Average skyline were JP Morgan (NYSE:JPM) up 3.8%, Goldman Sachs (NYSE:GS) up 3% and American Express (NYSE:AXP) up 1.1%.

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