The Daily Dish

All Fed, All Week

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If you are like me, you begin the week looking at the scheduled release of economic data. This week there are some minor sideshows but there is really only one thing going on: the meeting of the Federal Reserve Board Open Market Committee (FOMC) and its interest-rate decision to be announced on Wednesday.

If there were no other considerations, another rate rise would be a no-brainer. Inflation remains stubbornly high and the estimates of the appropriate level of interest rates delivered by the Taylor Rule are closer to 6 percent than below 5 percent. Leaning against inflation is the Fed's top priority and its reading of history is that the greatest possible error would be to ease prematurely.

Of course, there are other considerations, namely the recent demise of Silvergate, Signature, and Silicon Valley banks in the United States, the apparent weakness of First Republic Bank, and the weakness of Credit Suisse bank. But each of these has been dealt with. The first three are closed, First Republic got a cash infusion on Friday, and Credit Suisse was firesaled (Eakinomics reserves the right to invent new verbs) to UBS over the weekend.

Ah, you say, but there may be other troubles out there. There is no evidence of broad insolvency in the banking sector, but there may be some banks that are illiquid enough that raising cash for twitchy depositors who want their money might be an issue. If so, those banks should take advantage of the Fed's lender-of-last-resort capabilities. Evidently they are, as the Fed loaned $150 billion at the discount window recently.

All told, it would appear these measures are sufficient to put banking stability considerations behind the need to fight inflation. Will events between now and Wednesday change that picture? Will the FOMC agree with the logic? Time will tell.