

Page 1 – Speeches & Reports

- FOMC – Jan’s meeting wraps up tomorrow.
- St Lou Fed – Lessons learned from GFC’s QE.
- IMF – why are workers so scarce?
- Fed’s CBDC – the future of money, step 1.

Page 2 – Economic Indicators & Rate Trends

FOMC – The Policy Path will be even Clearer Tomorrow

- Taper – \$30BN a month, wrapping up in March.
- Rate Hikes – March liftoff, possibly 3 hikes by YE.
- BSN/QT – Possibly \$100BN a month starting in June.
 - BSN and QT (Quantitative Tightening) both refer to reducing the size of the Fed’s balance sheet.
 - If QE lowers rates, will QT increase rates?
 - Will the Fed Raise Rates with a mix of hikes/QT?

St Lou Fed – Lessons Learned from QE & thoughts on QT

- “Quantitative tightening describes the ongoing reduction in the Federal Reserve’s asset portfolio that it accumulated during and after the financial crisis of 2008-09. Some economists and financial market participants have worried that such “tightening” has been or will be a major drag on the economy. This essay explains quantitative tightening and argues that it is unlikely to significantly impede economic activity.”
- “During the financial crisis, the Fed first lowered the federal funds rate to zero and then purchased large quantities of long-term Treasuries and mortgage-backed securities to reduce long-term yields. The Fed took both these actions to boost economic activity.”
- “Studies indicate that from 2008-13 the Fed’s asset purchases and forward guidance about future short rates jointly reduced 10-year Treasury yields by 100 to 200 basis points on impact and that this reduction modestly raised overall prices and real activity.”

Source: St Louis Fed, [What to Expect from Quantitative Tightening](#), 4/5/19

IMF – Why Jobs are Plentiful & Workers Scarce

- “The first possible explanation is that income support programs during the pandemic allowed workers to be picky, slowing job applications, acceptances and, ultimately, the employment recovery.”
 - “However, preliminary evidence reviewed in our paper, including from the recent phasing out of the US federal unemployment insurance supplement, suggests the early removal of COVID-related unemployment benefits had

only a modest and temporary effect on getting people back to work.”

- “A second candidate explanation is an increase in the mismatch between the industries and occupations in which the jobless are searching and those with abundant vacancies.”
 - “We find that the employment loss due to mismatch during the crisis has been modest and, to our surprise, *smaller* than during the Global Financial Crisis.”
- “A third explanation seems more potent, at least in the US. The prolonged school closures and scarcity of childcare services put an extra burden on mothers of young children, pushing many to leave the labor force—the so-called ‘She-cession.’”
- “The final and potentially largest contributor to a lag in employment recovery is an exodus of older workers from the labor force in both countries. For some, this may reflect health concerns related to the pandemic. Others may have reconsidered their need to work as housing and financial asset prices grew substantially.”

Source: IMF, [Why jobs are plentiful while workers are scarce](#), 1/19/22

Fed’s Central Bank Digital Currency (CBDC) – Step 1

- “The Federal Reserve is exploring the implications of, and options for, issuing a CBDC. For the purpose of this paper, a CBDC is defined as a digital liability of the Federal Reserve that is widely available to the general public ... a CBDC would differ from existing digital money available to the general public because a CBDC would be a liability of the Federal Reserve, not of a commercial bank.”
 - “This paper is the first step in such a conversation.”
 - “The Federal Reserve does not intend to proceed with issuance of a CBDC without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law.”

Source: Fed Board, [Money and Payments, the U.S. Dollar in the Age of Digital Transformation](#), 1/20/22

Quote of the Week:

“Learning is not attained by chance; it must be sought for with ardor and attended to with diligence.”

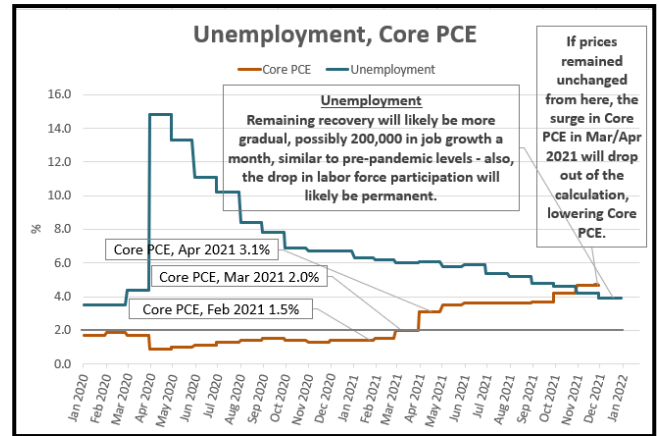
--- Abigail Adams

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Economic Indicators:

- **Unemployment: 3.9% Dec** (CBO's Natural Rate: 4.2%)
 - Jan unemployment #'s will be released 2/4/22.
- **Core PCE: 4.7% Nov** (Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Nov: 2.81%,
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.74%.
 - Yield on Treasury minus yield on TIPS.
 - Dec's Core PCE will be released Friday.
- **GDP: 2.3% Q3** (SF Fed Long Trend: 1.70%)
 - Median consensus is growth – 5.7%.
 - 4Q GDP (Adv. Estimate) will be out Thursday.



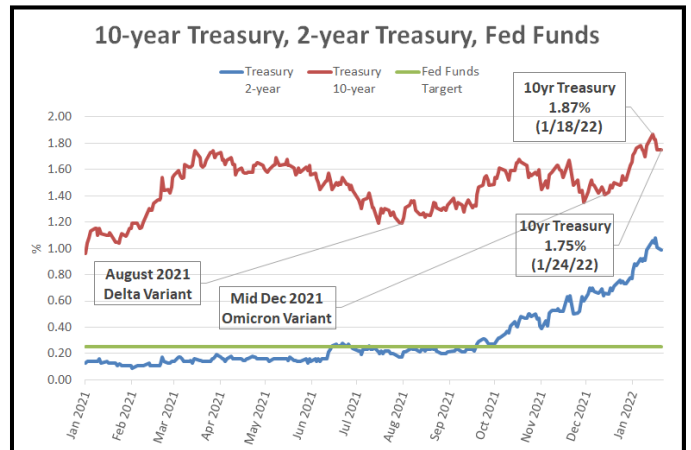
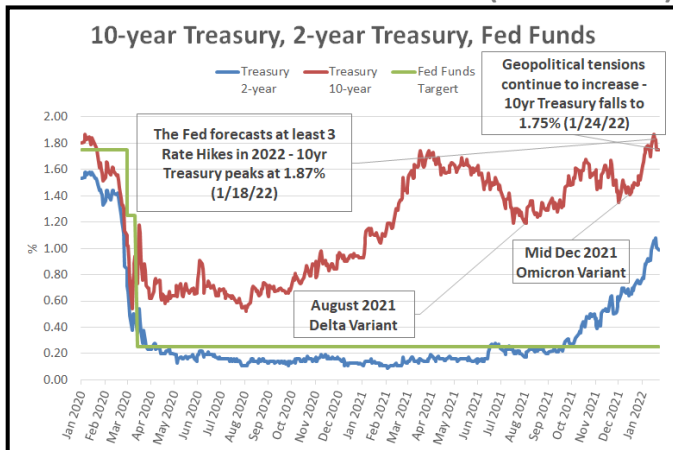
Rate Hikes – March liftoff; SEP forecast is for 3 hikes by YE.

Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	1/10/22	1/11/22	1/12/22	1/13/22	1/14/22	1/18/22	1/19/22	1/20/22	1/21/22	1/24/22	10-Day Average	10-Day Avg vs 1/24/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.49	2.51	2.47	2.47	2.46	2.55	2.58	2.56	2.54	2.54	2.52	↑ 0.02	0.05
10-year Term Loan	3.12	3.13	3.11	3.10	3.09	3.17	3.21	3.18	3.14	3.13	3.14	↓ (0.01)	0.01
15-year Term Loan	3.47	3.46	3.45	3.44	3.43	3.49	3.54	3.50	3.47	3.45	3.47	↓ (0.02)	(0.02)

Key Interest Rates	1/10/22	1/11/22	1/12/22	1/13/22	1/14/22	1/18/22	1/19/22	1/20/22	1/21/22	1/24/22	10-Day Average	10-Day Avg vs 1/24/22	10-Day Change
Federal Funds (Target Range - Upper Limit)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.00	0.00
BSBY - Overnight	0.075	0.076	0.074	0.077	0.077	0.074	0.080	0.080	0.080	0.082	0.078	↑ 0.005	↑ 0.007
BSBY - 1-month	0.074	0.075	0.081	0.082	0.082	0.083	0.084	0.084	0.087	0.086	0.082	↑ 0.005	↑ 0.013
SOFR - Overnight	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.040	0.050	0.000	0.044	↓ (0.044)	↓ (0.050)
SOFR - 30-Day Average	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.000	0.000
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.060	0.063	0.059	0.058	0.056	0.057	0.060	0.063	0.061	0.059	0.060	↓ (0.001)	↓ (0.001)
US Treasury - 2-Year	0.92	0.90	0.92	0.91	0.99	1.06	1.04	1.08	1.01	0.99	0.98	↑ 0.01	↑ 0.07
US Treasury - 10-Year	1.78	1.75	1.74	1.70	1.78	1.87	1.83	1.83	1.75	1.75	1.78	↓ (0.03)	↓ (0.03)
US Treasury - 20-Year	2.15	2.13	2.13	2.10	2.18	2.24	2.20	2.19	2.13	2.15	2.16	↓ (0.01)	0.00
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.86	0.85	0.82	0.79	0.79	0.81	0.79	0.75	0.74	0.76	0.80	↓ (0.04)	↓ (0.10)

Rates --- 2-Year Trend & 1-Year Trend (a closer look)



Interesting reads that didn't make the Report:

- Nothing this week (very few reports to read because of the Fed's blackout period, January 15 – 27).

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