Fed Unfiltered

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Bullard – 1st Moves Won't Tip Economy into Recession

- "This is a moment where we need to shift to less accommodation, and the debate is about how fast to do that."
- "That does mean we would have to move faster and more nimbly than we have in recent decades, but I think that's probably the appropriate policy."
- Would raising the policy rate risk recession (aka a 50bps hike in March)? "This is just talking about the very first moves from an extremely accommodative policy that we used during the pandemic, and I don't think those first moves are very likely to tip the economy into recession."

Source: St. Louis Fed Press Release and Video, Bullard Speaks with CNN International about U.S. Monetary Policy, 2/17/22

Williams – Rate Hikes and a Slowing Trend Forecast

- "I expect it will be appropriate to raise the target range at our upcoming meeting in March. Once the interest rate increases are underway, the next step will be to start the process of steadily and predictably reducing our holdings of Treasury and mortgage-based securities, which had grown significantly as a result of the purchases that began in March 2020. I foresee this process getting started later this year."
- "Taken together, these two sets of actions steadily raising the target range for the federal funds rate and steadily bringing down our securities holdings—should help bring demand closer to supply. In fact, even though we haven't done either of these things yet, financial conditions have already responded based on the expectation of Fed action. For example, medium- and longer-term Treasury yields and fixed-rate mortgage rates have risen close to their December 2019 levels."
- "My forecast for the U.S. economy is for real GDP to grow a bit below 3 percent this year, for the unemployment rate to end the year around 3-1/2 percent, and for PCE price inflation to drop back to around 3 percent, before falling further next year as supply issues continue to recede."

Source: NY Fed, Williams speech, Restoring Balance, 2/18/22

Bowman – Hikes will Alleviate Some Inflation Pressure

- "Unfortunately, monetary policy isn't well-suited to address supply issues. But strong demand and a very tight labor market have also contributed to inflation pressures, and the FOMC can help alleviate those pressures by removing the extraordinary monetary policy accommodation that is no longer needed."
- "I will be watching the data closely to judge the appropriate size of an increase at the March meeting."
- "In the coming months, we need to take the next step, which is to begin reducing the Fed's balance sheet by ceasing the reinvestment of maturing securities already held in the portfolio. Returning the balance sheet to an appropriate and manageable level will be an important additional step toward addressing high inflation."

Source: Fed Board, Bowman speech, High Inflation and the Outlook for Monetary Policy, 2/21/22

Fed Meeting Minutes – What Goes Up Must …

- "While participants agreed that details on the timing and pace of balance sheet runoff would be determined at upcoming meetings, participants generally noted that current economic and financial conditions would likely warrant a faster pace of balance sheet runoff than during the period of balance sheet reduction from 2017 to 2019."
  - 2017-2019 reduction: about $65BN a month.

Source: Fed Board, Minutes of the Federal Open Market Committee: Principles for Reducing the Size of the Balance Sheet, 2/1/22

Policy – Vulnerabilities Ok in Early-Stage Recoveries

- "Overall, while most theoretical mechanisms discussed above imply that easier monetary policy tends to increase vulnerabilities, the strength of this relationship also depends on the level of financial regulation and the state of macroprudential policy, and on the economic outlook. Moreover, even if monetary policy unambiguously increases vulnerabilities, this may be desirable if the level of vulnerabilities is inefficiently low in the first place, for instance in the early stage of a recovery."

Source: NY Fed, Financial Stability Considerations for Monetary Policy: Theoretical Mechanisms, 2/15/22

Quote of the Week:
"I was brought up to believe that the only thing worth doing was to add to the sum of accurate information in the world."
--- Margaret Mead

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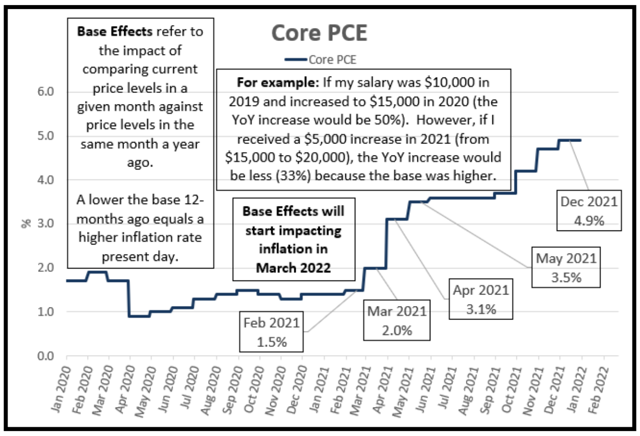
Economic Indicators:

- *Unemployment: 4.0% Jan* *(CBO's Natural Rate: 4.2%)*
  - *Feb's unemployment #'s will be released 3/4/22.*
- *Core PCE: 4.9% Dec* *(Avg. Inflation Target: 2.0%)*
  - *Jan's Core PCE will be released Friday.*
  - *Median forecast is for a slight increase to 5.1%.*
  - *Dallas Fed's Trimmed Mean for Dec: 3.05%,*
    - *Trims off the lower & upper data spikes.*
  - *St Lou Fed 5yr Breakeven Inflation Rate: 2.86%.*
    - *Yield on Treasury minus yield on TIPS.*
- *GDP: 6.9% Q4 (Adv. Est.)* *(SF Fed Long Trend: 1.70%)*
  - *4Q GDP (2nd Estimate) will be released Thursday.*
  - *Median forecast is for a slight increase to 7.0%.*



Core PCE = Change from Month One Year Ago.

Rates --- 10-Day Trends

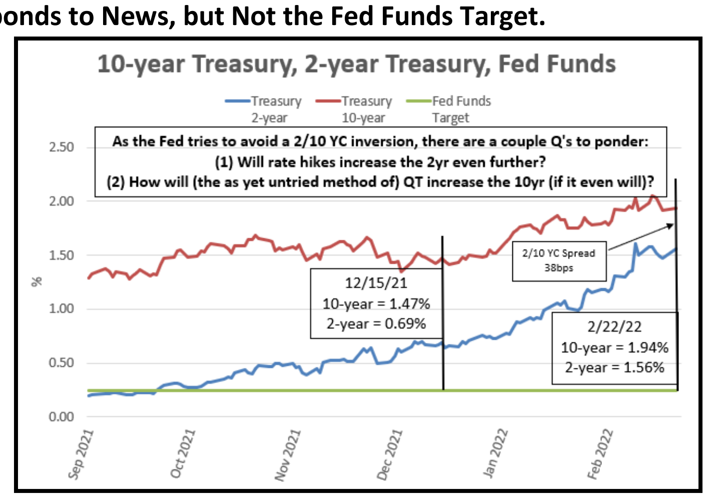
Borrowing Rates - Tax Exempt	2/8/22	2/9/22	2/10/22	2/11/22	2/14/22	2/15/22	2/16/22	2/17/22	2/18/22	2/22/22	10-Day Average	10-Day Avg vs 2/22/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.69	2.69	2.71	2.86	2.86	2.87	2.84	2.80	2.79	2.80	2.79	0.01	0.12
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	3.26	3.25	3.26	3.35	3.35	3.37	3.35	3.32	3.29	3.29	3.31	(0.02)	0.02
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.59	3.57	3.58	3.65	3.65	3.67	3.65	3.63	3.59	3.59	3.62	(0.03)	0.00

Key Interest Rates	2/8/22	2/9/22	2/10/22	2/11/22	2/14/22	2/15/22	2/16/22	2/17/22	2/18/22	2/22/22	10-Day Average	10-Day Avg vs 2/22/22	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
Interest on Reserve Balances (IORB) (Formerly IOER - name changed July 2021)	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.00	0.00
BSBY - Overnight	0.072	0.077	0.077	0.076	0.085	0.076	0.077	0.077	0.071	0.072	0.076	(0.004)	0.000
BSBY - 1-month	0.095	0.092	0.091	0.102	0.105	0.099	0.101	0.094	0.096	0.108	0.098	0.009	0.013
SOFR - Overnight	0.050	0.040	0.050	0.050	0.050	0.050	0.050	0.050	0.500	0.000	0.094	0.406	0.450
SOFR - 30-Day Average	0.049	0.049	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.049	0.048	0.000	0.000
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.059	0.057	0.057	0.099	0.095	0.071	0.080	0.133	0.131	0.140	0.092	0.048	0.082
US Treasury - 2-Year	1.35	1.36	1.61	1.50	1.58	1.58	1.52	1.49	1.47	1.56	1.50	0.06	0.21
US Treasury - 10-Year	1.96	1.94	2.03	1.92	1.98	2.05	2.03	1.97	1.92	1.94	1.97	(0.03)	(0.02)
US Treasury - 20-Year	2.31	2.31	2.37	2.30	2.35	2.42	2.39	2.35	2.30	2.31	2.34	(0.03)	0.00
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.61	0.58	0.42	0.42	0.40	0.47	0.51	0.48	0.45	0.38	0.47	(0.09)	(0.23)

Rates – Greenspan Conundrum: The 10-year Treasury Responds to News, but Not the Fed Funds Target.

- "During his February 2005 congressional testimony, Alan Greenspan identified what he termed a conundrum. Despite the fact that the Federal Open Market Committee (FOMC) had increased the federal funds rate 150 basis points since June 2004, the 10-year Treasury yield remained essentially unchanged. Thornton (2018) showed that the relationship between the 10-year Treasury yield and the federal funds rate changed in the late 1980s … (and) … As a consequence of this change in the FOMC's operating procedure, the correlation between changes in the funds rate and the 10-year Treasury yield declined—effectively to zero."

St. Louis Fed, Further Evidence on Greenspan's Conundrum, 1/14/22



Interesting reads that didn't make the Report:

- NY Fed, How (Un-)Informed Are Depositors in a Banking Panic? A Lesson from History, 2/17/22