Fed Unfiltered

2/28/22

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Daly – What the Future Holds … it all Depends

- "The timing and magnitude of future funds rate and balance sheet adjustments will depend on how the economy and the data evolve. And this will depend on how well we transition from pandemic to endemic; how much and how quickly supply chains recover; how rapidly workers sidelined by health, family care, or other COVID-related barriers return to the labor force; and how quickly the fiscal boost that aided spending in 2020 and 2021 fades. We will closely watch all of these developments and let the data determine the appropriate path of policy."
  - "Absent any significant negative surprises, I see our next meeting, in March, as the appropriate time to begin this adjustment."

    Source: SF Fed, Mary Daly speech, This Time Is Different…Because We Are, 2/23/22

Waller – Ukraine, Rate Hikes, Balance Sheet Reduction

- Ukraine: "It is far too early to judge how this conflict will affect the world, or the world economy, and what the implications will be for the U.S. economy. But this situation adds uncertainty to my outlook and will be something I will be monitoring very closely. As my speech will say, we will need to carefully look at the incoming data, especially during a time of heightened uncertainty."
- Rate Hikes: "The pace of tightening will depend on the data. One possibility is that the target range is raised 25 basis points at each of our next four meetings. But if, for example, tomorrow's PCE inflation report for January, and jobs and CPI reports for February indicate that the economy is still running exceedingly hot, a strong case can be made for a 50-basis-point hike in March. In this state of the world, front-loading a 50-point hike would help convey the Committee's determination to address high inflation, about which there should be no question. Of course, it is possible that the state of the world will be different in the wake of the Ukraine attack, and that may mean that a more modest tightening is appropriate, but that remains to be seen."
- Balance Sheet Reduction: "I support starting this process no later than the July FOMC meeting. The pace of the reduction in asset holdings has not been determined but will be consistent with promoting the FOMC's employment and inflation goals and will be communicated well in advance to the public so that the plan is predictable."
- "The last time we reduced our balance sheet we did the following: First, we waited two years after our first-rate hike before commencing balance sheet runoff. Second, we imposed monthly caps on the amount of maturing securities that we would let run off. These caps started out very low and were gradually lifted over a period of 12 months. So, why not follow the same strategy this time?"
- "First, back in 2017 and 2018 we had never intentionally reduced our balance sheet before. This was new territory for the Fed, so we went slow. Second, the Committee was considering moving to an ample reserves regime for conducting monetary policy, where we wanted to keep the banking system flush with reserves. Thus, we had no idea how far we could let reserves fall before we might cause an unwelcome shortage of reserves. Third, the economy was in a much different place; in particular inflation was much lower. Finally, we only expected to run off about $2 trillion of securities from our balance sheet. In that environment it made sense to go slow and gradual in terms of balance sheet reduction."

  Source: Fed Board, Christopher Waller speech, Fighting Inflation with Rate Hikes and Balance Sheet Reduction, 2/24/22

Bullard – The Balance Sheet's Plan A and Plan B

- "Asked how the Federal Open Market Committee should manage the Fed's bond holdings, Bullard said he would prefer to see passive balance sheet runoff where the Fed doesn't replace maturing securities initially, but also to have a plan B whereby the Fed could consider asset sales at some point if inflation doesn't moderate and doesn't begin to return to the Fed's 2% target."

  Source: St Louis Fed, as reported on the website, Bullard Speaks with Wharton about Inflation, Policy Rate, Fed Balance Sheet, 2/25/22

Quote of the Week:
"The first duty of a man is the seeking after and the investigation of truth."
--- Cicero (Roman Statesman)

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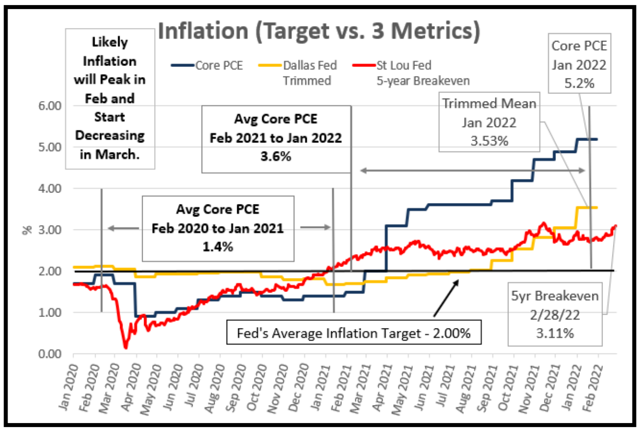
Economic Indicators:

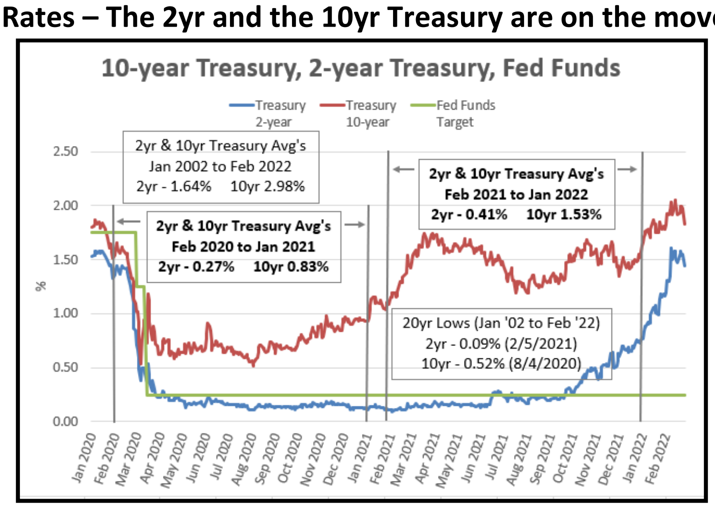
- *Unemployment: 4.0% Jan* *(CBO's Natural Rate: 4.2%)*
  - *Feb's unemployment #'s will be released Friday.*
  - *Median consensus is job growth of 350,000.*
- *Core PCE: 5.2% Jan* *(Avg. Inflation Target: 2.0%)*
  - *Avg Inflation from Feb 2020 to Jan 2022 is 2.5%.*
  - *Dallas Fed's Trimmed Mean for Dec: 3.53%,*
    - *Trims off the lower & upper data spikes.*
  - *St Lou Fed 5yr Breakeven Inflation Rate: 3.11%.*
    - *Yield on Treasury minus yield on TIPS.*
  - *February's Core PCE will be released 3/31/22.*
- *GDP: 7.0% Q4 (2nd Est.)* *(SF Fed Long Trend: 1.70%)*
  - *4Q GDP (3rd Estimate) will be released 3/30/22.*

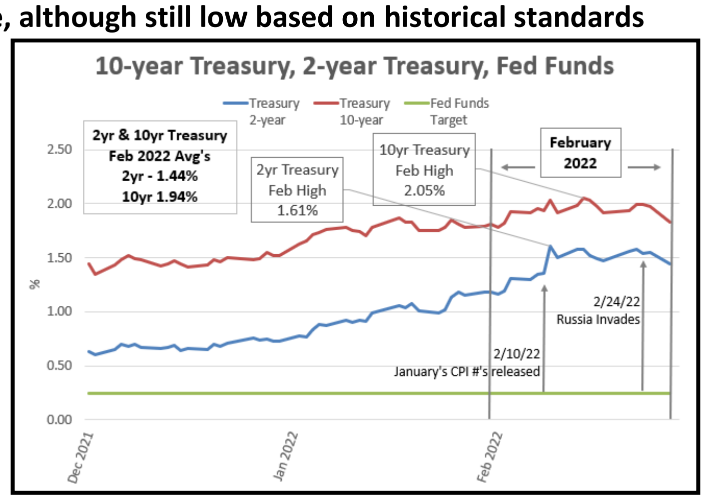


Rates --- 10-Day Trends

Key Interest Rates	2/14/22	2/15/22	2/16/22	2/17/22	2/18/22	2/22/22	2/23/22	2/24/22	2/25/22	2/28/22	10-Day Average	10-Day Avg vs 2/28/22	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	0.085	0.076	0.077	0.077	0.071	0.072	0.075	0.076	0.076	0.085	0.077	0.008	(0.001)
BSBY - 1-month	0.105	0.099	0.101	0.094	0.096	0.108	0.110	0.121	0.131	0.144	0.111	0.033	0.039
SOFR - Overnight	0.050	0.050	0.050	0.050	0.500	0.500	0.500	0.500	0.500	0.000	0.275	0.225	0.450
SOFR - 30-Day Average	0.048	0.048	0.048	0.048	0.048	0.049	0.049	0.049	0.049	0.050	0.049	0.001	0.001
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.095	0.071	0.080	0.133	0.131	0.140	0.154	0.190	0.195	0.223	0.141	0.081	0.128
US Treasury - 2-Year	1.58	1.58	1.52	1.49	1.47	1.56	1.58	1.54	1.55	1.44	1.53	(0.09)	(0.14)
US Treasury - 10-Year	1.98	2.05	2.03	1.97	1.92	1.94	1.99	1.99	1.97	1.83	1.97	(0.14)	(0.15)
US Treasury - 20-Year	2.35	2.42	2.39	2.35	2.30	2.31	2.36	2.36	2.37	2.25	2.35	(0.10)	(0.10)
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.40	0.47	0.51	0.48	0.45	0.38	0.41	0.45	0.42	0.39	0.44	(0.05)	(0.01)

Rates – The 2yr and the 10yr Treasury are on the move, although still low based on historical standards





Interesting reads that didn't make the Report:

- Federal Board of Governors, 2022 Stress Test Scenarios, 2/10/22 (In particular the severely adverse scenario.)
- Cleveland Fed, Mis-specified Forecasts and Myopia in an Estimated New Keynesian Model, 2/16/22
  - How inflation forecasting can sometimes be more about the forecaster than the forecast.