Fed Unfiltered

3/16/22

Pete Sullivan
Rate Analyst
206-502-3811
pete.sullivan@fedunfiltered.com

Today's FOMC Meeting Announcement (3/16/22)

- Rate Hikes – 6 more rate hikes before YE 2022.
- Long Run Rate –2.00% by YE2022, 2.8% by YE2024.
- QT – will reduce holdings "at a coming meeting".

Summary of Economic Projections --- Released 3/16/22			Currently
GDP	Dec 2021 SEP Forecast --- for YE 2022	4.0%	
	Mar 2021 SEP Forecast --- for YE 2022	2.8%	7.0%
Unemployment	Dec 2021 SEP Forecast --- for YE 2022	3.5%	
	Mar 2021 SEP Forecast --- for YE 2022	3.5%	3.8%
Core PCE	Dec 2021 SEP Forecast --- for YE 2022	2.7%	
	Mar 2021 SEP Forecast --- for YE 2022	4.1%	5.2%

Consumer Confidence – Not an All-Time Low, but Close

- "Consumer Sentiment continued to decline due to falling inflation-adjusted incomes, recently accelerated by rising fuel prices as a result of the Russian invasion of Ukraine. The year-ahead expected inflation rate rose to its highest level since 1981, and expected gas prices posted their largest monthly upward surge in decades."
- "The greatest source of uncertainty is undoubtedly inflation and the potential impact of the Russian invasion of Ukraine. In the March survey, 24% of all respondents spontaneously mentioned the Ukraine invasion in response to questions about the economic outlook."
  - Consumer Sentiment, May 1980 – 51.7.
    - Lowest reading since 1952, when the Univ. of Michigan survey began reporting.
    - Core PCE peaked at 9.3% in March 1980.
  - Consumer Sentiment, November 2008 – 55.3.
    - Nov 2008 was in the midst of the GFC.
  - Consumer Sentiment, February 2020 – 101.0.
  - Consumer Sentiment, April 2020 – 71.8.
    - The pandemic takes hold of the world.
  - Consumer Sentiment, March 2022 – 59.7.
    - Core PCE is (currently & peaked at) 5.2%.

Source: Surveys of Consumers, University of Michigan Website

Inflation – The Benefits of Debt Holders Explained

- "The federal government is the largest nominal debtor in the economy. This means it is either the biggest winner or loser from every inflation shock. With the unprecedented positive inflation shock we have experienced over the last year, the federal government has come out as a big winner, with an inflation tax that amounts to around 3.3% of GDP, equivalent to a 6.5% tax on wealth held in Treasury securities. These numbers can be expected to change if there are more surprises in inflation."
- "To illustrate how inflation shocks redistribute between borrowers and lenders of nominal contracts, consider the following example: Suppose you are wanting to buy a car that costs $10,000 today. You agree to borrow the $10,000 from your bank today and pay it back, with 5% interest—for a total of $10,500—one year from today. Suppose the bank and you both expect inflation to be zero percent. However, if after a year, realized inflation turns out to be 10%, then the $10,500 you promised to pay is worth only $9,450 in today's dollars [$10,500 – ($10,500 × 0.1)], and you are actually paying back less than the principle you borrowed."

St Louis Fed, How Much Are We "Taxed" by Surprise Inflation? 3/2/22

SWIFT – Will Sanctions Impact the Dollar's Dominance?

- "The European Union's recent move to ban several Russian banks from SWIFT has caused some to argue that it will have significant unintended consequences. One popular argument is that market participants will switch from the U.S. dollar to other currencies out of fear that they or their counterparties could be removed from SWIFT in the future at the urging of the U.S."
- "But there are several reasons this is unlikely. First, as a message system, SWIFT is open to any currencies and not tied to the U.S. dollar."
- "Second, the notion misses the fact that payment decisions are made by bilateral economic choice, rather than by coercion. Market participants will not switch to non-dollar currencies on non-SWIFT platforms if their counterparties will not do the same."
- "Third, let's use Gmail as an example of why banning some banks from SWIFT wouldn't cause abandonment of the dollar. If some users are banned from writing emails in English with Gmail, they will likely look for other email systems rather than abandon English. Similarly, banks may first look for another message system- like SPFS in Russia or CIPS in China -before abandoning the dollar."

Source: Richmond Fed, What Is SWIFT, and Could Sanctions Impact the U.S. Dollar's Dominance? 3/4/22

Quote of the Week:
"One's work may be finished someday, but one's education never!"
--- Alexandre Dumas (French writer)

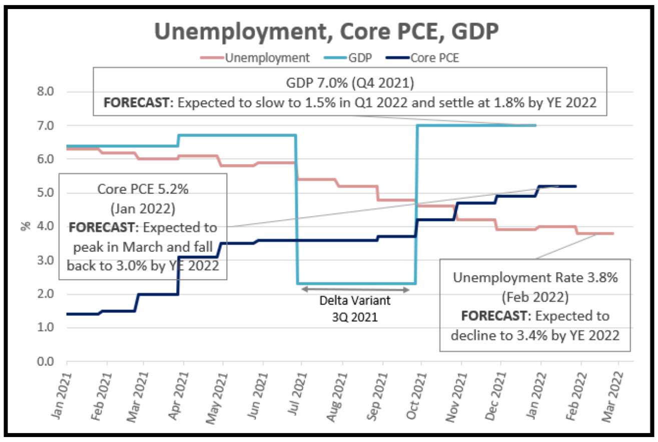
Fed Unfiltered

3/16/22

Pete Sullivan
Rate Analyst
206-502-3811
pete.sullivan@fedunfiltered.com

Economic Indicators:

- Unemployment: 3.8% Feb (CBO's Natural Rate: 4.2%)
  - Mar's unemployment #'s to be released 4/1/22.
- Core PCE: 5.2% Jan (Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for Jan: 3.42%,
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 3.42%.
    - Yield on Treasury minus yield on TIPS.
    - Market participant's expectation for inflation in the next five years peaked at 3.52% on Friday (3/11/22) vs the 30-day average (2/15/22 to 3/15/22) of 3.16%.
  - 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.



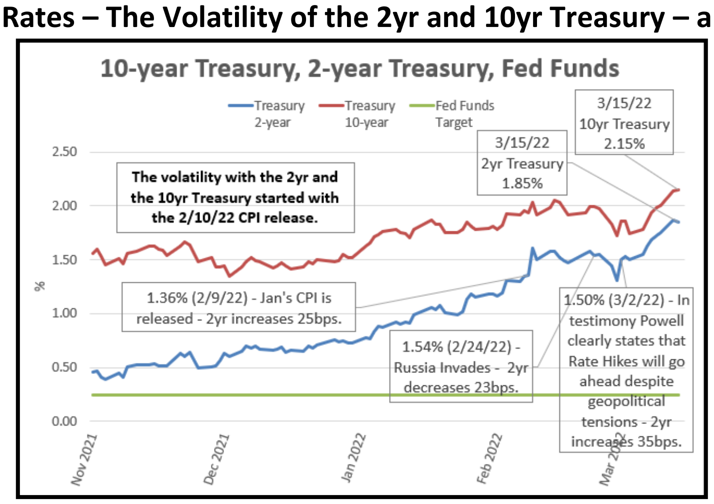
GDP, 1st Quarter 2022 (Advanced Estimate) will be released on 4/28/2022

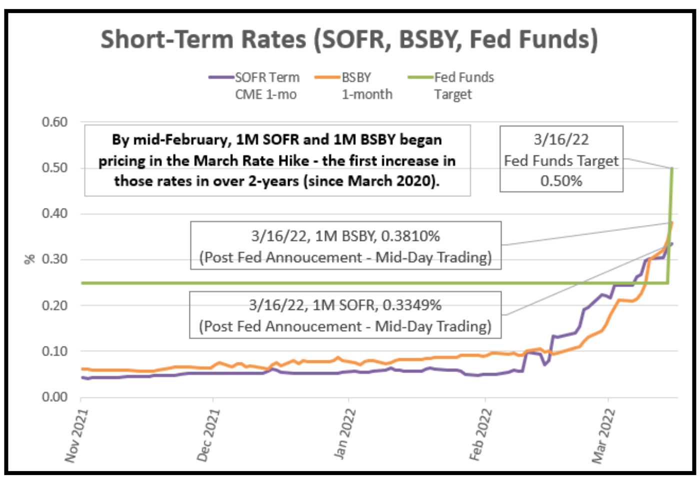
Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	3/2/22	3/3/22	3/4/22	3/7/22	3/8/22	3/9/22	3/10/22	3/11/22	3/14/22	3/15/22	10-Day Average	10-Day Avg vs 3/15/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.62	2.73	2.71	2.73	2.80	2.85	2.88	2.93	3.00	3.02	2.83	0.19	0.40
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	3.14	3.22	3.17	3.17	3.24	3.28	3.32	3.36	3.42	3.44	3.28	0.16	0.29
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.45	3.54	3.48	3.47	3.53	3.56	3.61	3.64	3.71	3.74	3.57	0.17	0.29

Key Interest Rates	3/2/22	3/3/22	3/4/22	3/7/22	3/8/22	3/9/22	3/10/22	3/11/22	3/14/22	3/15/22	10-Day Average	10-Day Avg vs 3/15/22	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	0.084	0.080	0.073	0.075	0.077	0.078	0.074	0.073	0.073	0.073	0.076	(0.003)	(0.011)
BSBY - 1-month	0.180	0.195	0.212	0.209	0.213	0.225	0.247	0.300	0.322	0.342	0.244	0.097	0.161
SOFR - Overnight	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.000	0.050	0.000	0.000
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)	0.218	0.244	0.244	0.244	0.262	0.269	0.298	0.301	0.304	0.329	0.271	0.057	0.111
US Treasury - 2-Year	1.50	1.53	1.50	1.55	1.63	1.68	1.72	1.75	1.87	1.85	1.66	0.19	0.35
US Treasury - 10-Year	1.86	1.86	1.74	1.78	1.86	1.94	1.98	2.00	2.14	2.15	1.93	0.22	0.29
US Treasury - 20-Year	2.32	2.32	2.23	2.29	2.34	2.38	2.45	2.45	2.56	2.57	2.39	0.18	0.25
2-Year / 10-year Treasury Yield Curve Spread (10-year Treasury minus 2-year Treasury)	0.36	0.33	0.24	0.23	0.23	0.26	0.26	0.25	0.27	0.30	0.27	0.03	(0.06)

Rates – The Volatility of the 2yr and 10yr Treasury – and – The First Fed Funds Rate Hike in Since Late 2018





Interesting reads that didn't make the Report:

- Because of the Fed's Blackout Period (March 5th through March 17th) there were very few reports to read.