Fed Unfiltered

3/22/22

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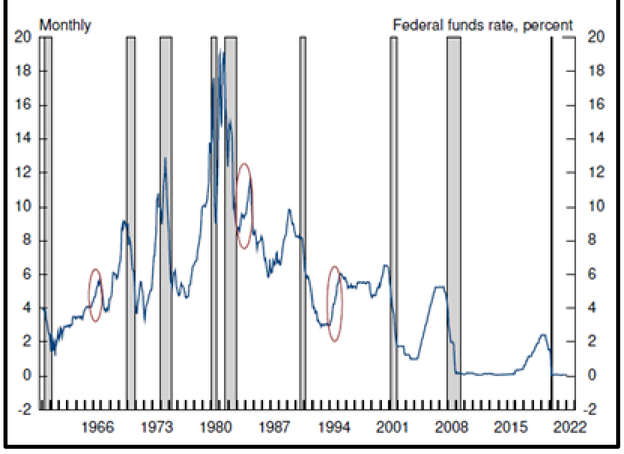
Powell – Necessary Steps May Include a 50bp Hike

- QT: "We also said that we expect to begin reducing the size of our balance sheet at a coming meeting. In my press conference, I noted that action could come as soon as our next meeting in May, though that is not a decision that we have made."
- A 25bp Plus Hike: "We will take the necessary steps to ensure a return to price stability. In particular, if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so. And if we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well."
- *Rate Hikes & Likelihood of Recession: "Second, how likely is it that monetary policy can lower inflation without causing a recession?* Our goal is to restore price stability while fostering another long expansion and sustaining a strong labor market. In the FOMC participant projections I just described, the economy achieves a soft landing, with inflation coming down and unemployment holding steady. Growth slows as the very fast growth from the early stages of reopening fades, the effects of fiscal support wane, and monetary policy accommodation is removed."
- "Some have argued that history stacks the odds against achieving a soft landing and point to the 1994 episode as the only successful soft landing in the postwar period. I believe that the historical record provides some grounds for optimism: Soft, or at least soft-ish, landings have been relatively common in U.S. monetary history. In three episodes—in 1965, 1984, and 1994—the Fed raised the federal funds rate significantly in response to perceived overheating without precipitating a recession (figure 6). In other cases, recessions chronologically followed the conclusion of a tightening cycle, but the recessions were not apparently due to excessive tightening of monetary policy. For example, the tightening from 2015 to 2019 was followed by the pandemic-induced recession."

Figure 6. Three soft landings



Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The blue line is the Fed Funds Target.
Source: Fed Board, Powell speech, Restoring Price Stability, 3/21/22

Bullard – 3.0% by YE, and a Soft Landing is Achievable

- "In addition, in my contribution to the Summary of Economic Projections, I recommended that the Committee try to achieve a level of the policy rate above 3% this year. This would quickly adjust the policy rate to a more appropriate level for the current circumstances. The Committee has successfully moved in this manner before. In 1994 and 1995, the Committee made a similar discrete adjustment to the policy rate to better align it with the macroeconomic circumstances at that time. The results were excellent. The Committee achieved 2% inflation on average and the U.S. economy boomed during the second half of the 1990s. I think the Committee should try to achieve a similar outcome in the current environment."

Source: St Louis Fed, Bullard statement, President Bullard Explains His Recent FOMC Dissent, 3/18/22 – Reiterated in a 3/22/22 interview with Bloomberg, as reported on the St. Louis Fed website.

Oil Sanctions – An Interesting Fact, Interesting Report

- "What changed is that much of the Russian oil that continues to be exported from Baltic and Black Sea ports at steep discounts is not delivered to refiners, as is customary. Instead, trading houses are purchasing the oil and keeping it in commercial storage in Europe, from where it may be potentially resold, bypassing financial sanctions. Buying oil for storage is not prohibited under current sanctions."

Source: Dallas Fed, The Russian Oil Supply Shock of 2022, 3/22/22

Quote of the Week:
"If you want to understand today,
you have to search yesterday."
--- Pearl S. Buck (American writer)

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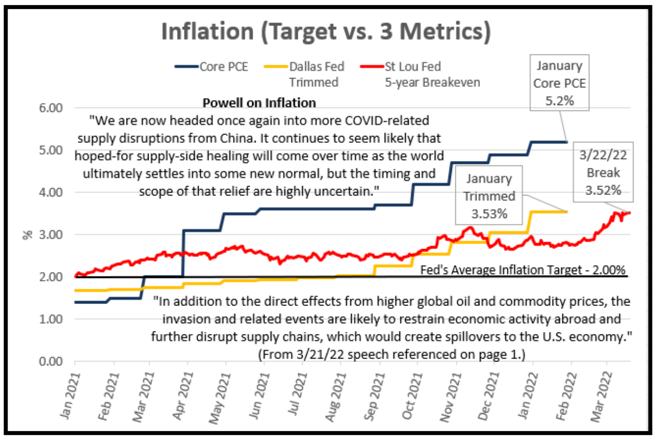
Economic Indicators:

- Unemployment: 3.8% Feb (Fed's Longer Run Rate: 4.0%)
  - Mar's unemployment #'s to be released 4/1/22.
- Core PCE: 5.2% Jan (Fed's Avg. Inflation Target: 2.0%)
  - In addition to Powell's comments Monday (see graph), Barkin, Kashkari and Bostic also spoke in detail about inflation (see 'Interesting Reads').
  - Dallas Fed's Trimmed Mean for Jan: 3.53%,
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 3.52%.
    - Yield on Treasury minus yield on TIPS.
  - February's Core PCE will be released 3/31/22.
- GDP: 7.0% Q4 (2nd Est.) (Fed's Longer Run Rate: 1.8%)
  - 4Q GDP (3rd Estimate) will be released 3/30/22.

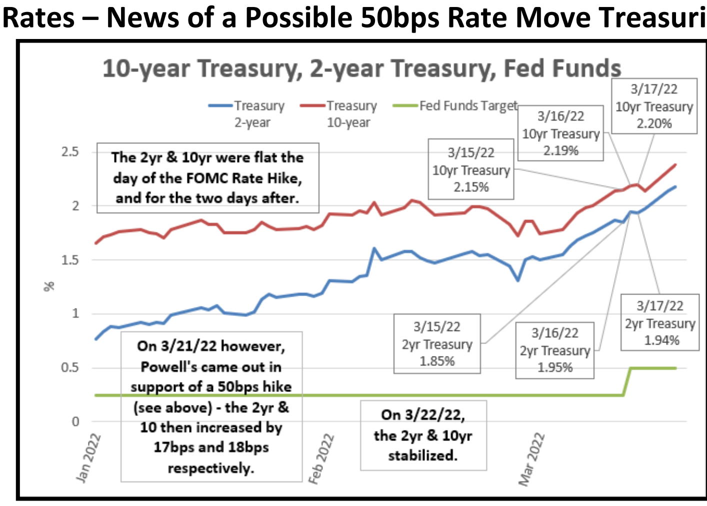


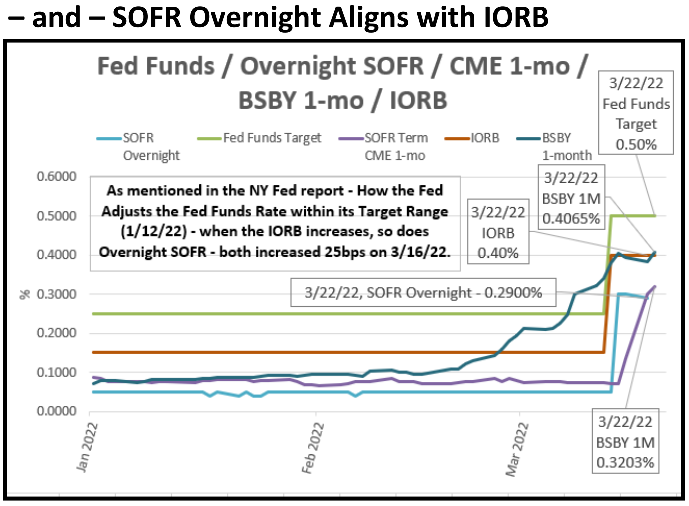
Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	3/9/22	3/10/22	3/11/22	3/14/22	3/15/22	3/16/22	3/17/22	3/18/22	3/21/22	3/22/22	10-Day Average	10-Day Avg vs 3/22/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.85	2.88	2.93	3.00	3.02	3.05	3.11	3.09	3.18	3.29	3.04	0.25	0.44
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	3.28	3.32	3.36	3.42	3.44	3.49	3.50	3.49	3.55	3.66	3.45	0.21	0.38
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.56	3.61	3.64	3.71	3.74	3.78	3.77	3.78	3.82	3.92	3.73	0.19	0.36

Key Interest Rates	3/9/22	3/10/22	3/11/22	3/14/22	3/15/22	3/16/22	3/17/22	3/18/22	3/21/22	3/22/22	10-Day Average	10-Day Avg vs 3/22/22	10-Day Change
Federal Funds (Target Range - Upper Limit)	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.38	0.13	0.25
Interest on Reserve Balances (IORB) (Formerly IOER - name changed July 2021)	0.15	0.15	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.28	0.13	0.25
BSBY - Overnight	0.078	0.074	0.073	0.073	0.073	0.071	0.071	0.134	0.301	0.320	0.127	0.194	0.243
BSBY - 1-month	0.225	0.247	0.300	0.322	0.342	0.381	0.404	0.395	0.385	0.407	0.341	0.066	0.182
SOFR - Overnight	0.050	0.050	0.050	0.050	0.050	0.050	0.300	0.300	0.290	0.000	0.124	0.166	0.240
SOFR - 30-Day Average	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.058	0.083	0.091	0.058	0.033	0.042
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.269	0.298	0.301	0.304	0.329	0.335	0.330	0.307	0.306	0.312	0.309	0.003	0.044
US Treasury - 2-Year	1.68	1.72	1.75	1.87	1.85	1.95	1.94	1.97	2.14	2.18	1.91	0.28	0.50
US Treasury - 10-Year	1.94	1.98	2.00	2.14	2.15	2.19	2.20	2.14	2.32	2.38	2.14	0.24	0.44
US Treasury - 20-Year	2.38	2.45	2.45	2.56	2.57	2.56	2.60	2.53	2.67	2.71	2.55	0.16	0.33
2-Year / 10-year Treasury Yield Curve Spread (10-year Treasury minus 2-year Treasury)	0.26	0.26	0.25	0.27	0.30	0.24	0.26	0.17	0.18	0.20	0.24	(0.04)	(0.06)

Rates – News of a Possible 50bps Rate Move Treasuries – and – SOFR Overnight Aligns with IORB





Interesting Reads that didn't make the Report:

- Richmond Fed, Tom Barkin speech, Containing Inflation, 3/18/22.