Fed Unfiltered

5/16/22

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FOMC – June 14-15 Meeting

- 50bp hike is on the table, 75bps has been ruled out.
- Fed will update their YE22 forecasts (in June's SEP).
- Two new Fed Board Members will be in attendance:
  - Lisa Cook, a Michigan State University economics professor – confirmed 5/10/22.
  - Philip Jefferson, a Davidson College economics professor – confirmed 5/11/22.
- There are also some changes at the Fed Prez level.
  - Chicago Fed Prez, Charles Evans, announced his retirement (for some time in early 2023).
  - Lorie Logan, an EVP at the NY Fed and the manager of the SOMA for the FOMC (for the last 10-years), was hired on 5/11/22 to be next Dallas Fed Prez – starts August 22nd.
  - Susan Collins, an economist & University of Michigan provost, was hired in Feb 2022 to be the next Boston Fed Prez – starts July 1st.

Williams – The Right Tools for the Job

- "With clear signs of demand exceeding supply and an economy running too hot, the primary focus of monetary policy is to turn down the heat and restore price stability."
- "Although we are facing highly unusual and challenging circumstances, I am confident we have the right tools to achieve our goals. In fact, we have an advantage over previous inflationary episodes: Our monetary policy tools are especially powerful in the very sectors where we see the greatest imbalances and signs of overheating—such as durable goods and housing. Higher interest rates will cool demand in these rate-sensitive sectors to levels better aligned with supply. This will also turn down the heat in the labor market, reducing the imbalance between job openings and available labor supply."

Source: NY Fed, Williams speech, The right Tools for Our Time, 5/10/22

Barkin – To Neutral and then Assess

- "You might ask if this path requires a Volcker-like recession. Not necessarily. At 83 basis points *(the current EFFR)*, we are still far from the level of interest rates that constrains the economy; for my colleagues on the FOMC, this neutral rate is in the range of 2-3 percent. And before the Great Recession, the economy handled rates even higher than that. Once we get in the range of the neutral rate *(approximately 2.50%)*, we can then determine whether inflation remains at a level that requires us to put the brakes on the economy or not."

Source: Richmond Fed, Barkin speech, Why We Care About Inflation, 5/10/22

Bullard – To Neutral and Beyond

- "I do think we need to get above neutral by the end of the year. I've been advocating, just as a number to put out there, a goal of 3.50% on the policy rate by the end of the year. I think we're going to have to do more than just get to neutral. We're going to have to go above neutral in order to put downward pressure on the persistent component of this inflation."
  - To get to 3.50% by YE, the FOMC would need a 50bp hike in each remaining five 2022 mtgs.
- Bullard qualified his statement by saying "we wanna take it one meeting at a time, let's see how the data comes in … I don't think we want to be promising today what we're gonna do in December, but I think right now we're on a good path near-term and that we can adjust as we go along."

Source: St. Louis Fed, Bullard interview with Yahoo Finance, as reported on the St Louis Fed's website, 5/11/22

Housing – Not Quite Like the Days of Yore (aka 2007)

- "But there are many differences in the mortgage market now compared to 2007. First, unlike the 2003-06 housing boom, mortgage debt has been rising much more slowly than home values. As above, the *number* of mortgages originated remains far lower than in the early part of our time series, which would be even lower if population adjusted. And finally – loans being originated now are going to higher credit score borrowers; more than 70% percent of mortgages originated in the last two years were to borrowers with credit scores over 760, compared to 38 percent between 2003-06. Subprime mortgages remain effectively non-existent."

Source: NY Fed, Refinance Boom Winds Down, 5/10/22

Quote of the Week

"By three methods we may learn wisdom: first, by reflection, which is noblest; second, by imitation, which easiest; and third by experience, which is the bitterest."
--- Confucius

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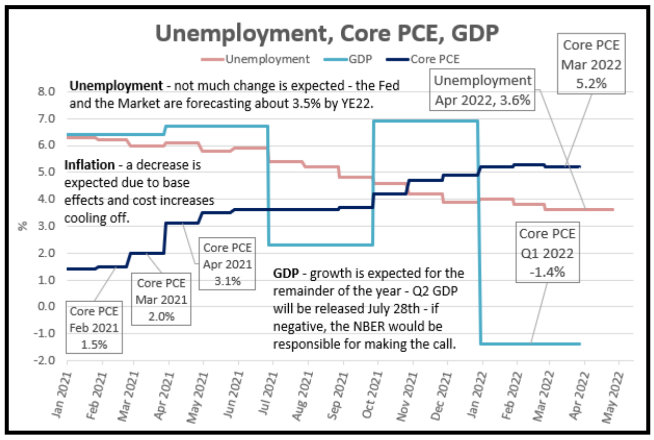
Economic Indicators:

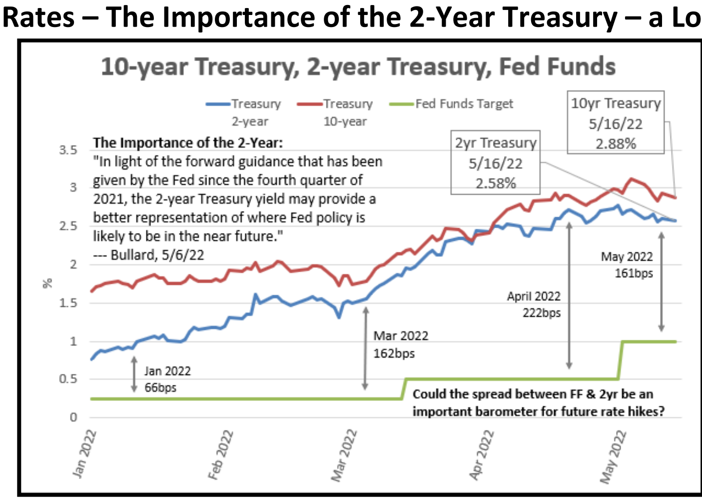
- Unemployment: 3.6% Apr (Fed's Long Run Rate: 4.0%)
  - May's unemployment #'s to be released 6/3/22.
- Core PCE: 5.2% Mar (Fed's Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for Mar: 3.70%.
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 3.04%.
    - Yield on Treasury minus yield on TIPS.
  - April's Core PCE will be released 5/27/22.
- GDP: -1.4% Q4 (Adv Est.) (Fed's Longer Run Rate 1.8%)
  - Q1 GDP (2nd Estimate) to be released 5/26/22.
  - All U.S. recessions are officially called by the NBER, a non-profit who defines a recession as a "significant decline in economic activity that is spread across the economy and that lasts more than a few months."

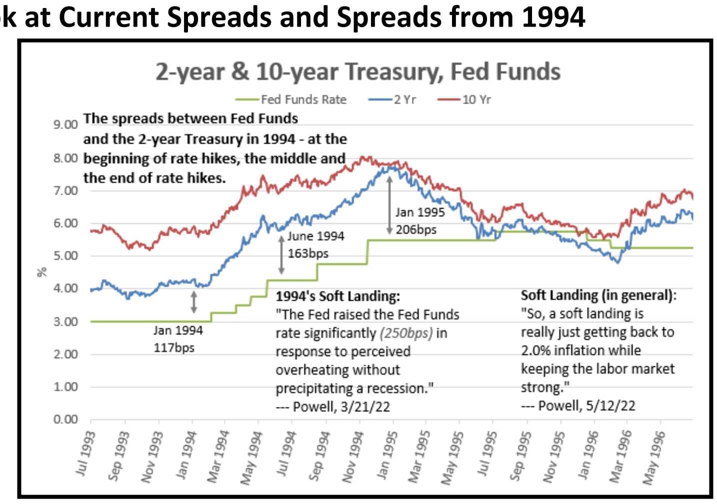


Rates --- 10-Day Trends

Key Interest Rates	5/2/22	5/3/22	5/4/22	5/5/22	5/6/22	5/9/22	5/10/22	5/11/22	5/12/22	5/13/22	5/16/22	10-Day Average	10-Day Avg vs 5/16/22	10-Day Change
Fed Funds Target Rate (FFTR)	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.95	0.05	0.50
Standing Repo Facility (SRF)	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.95	0.05	0.50
Interest on Reserve Balances (IORB)	0.40	0.40	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.85	0.05	0.50
Effective Fed Funds Rate (EFFR)	0.33	0.33	0.33	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.00	0.68	0.15	0.50
Overnight Reverse Repo Facility (ON RRP)	0.30	0.30	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.75	0.05	0.50
Fed's Balance Sheet (Total Assets in Millions)	8,939,972	8,939,972	8,939,972	8,939,972	8,939,972	8,939,972	8,939,972	8,942,008	8,942,008	8,942,008	8,942,008	8,940,712	(1,296)	2,036
BSBY - Overnight	0.325	0.321	0.316	0.317	0.415	0.793	0.832	0.834	0.833	0.826	0.830	0.632	0.199	0.510
BSBY - 1-month	0.682	0.704	0.756	0.798	0.817	0.838	0.836	0.832	0.832	0.834	0.833	0.808	0.025	0.129
SOFR - Overnight	0.300	0.300	0.300	0.790	0.780	0.780	0.780	0.780	0.790	0.790	0.000	0.639	0.151	0.490
SOFR - 30-Day Average	0.286	0.286	0.286	0.286	0.303	0.351	0.367	0.383	0.399	0.415	0.465	0.354	0.111	0.179
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.795	0.811	0.808	0.798	0.790	0.788	0.787	0.784	0.782	0.796	0.863	0.800	0.062	0.052
US Treasury - 3-Month	0.90	0.91	0.89	0.85	0.85	0.92	0.89	0.91	0.96	1.03	1.07	0.93	0.14	0.16
US Treasury - 2-Year	2.73	2.78	2.66	2.71	2.72	2.61	2.62	2.66	2.56	2.61	2.58	2.65	(0.07)	(0.20)
US Treasury - 10-Year	2.99	2.97	2.93	3.05	3.12	3.05	2.99	2.91	2.84	2.93	2.88	2.97	(0.09)	(0.09)
US Treasury - 20-Year	3.26	3.21	3.21	3.35	3.43	3.38	3.31	3.25	3.22	3.32	3.30	3.30	0.00	0.09
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) **(30yr historical avg: 1.68)**	2.09	2.06	2.04	2.20	2.27	2.13	2.10	2.00	1.88	1.90	1.81	2.04	(0.23)	(0.25)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) **(30yr historical avg: 1.14)**	0.26	0.19	0.27	0.34	0.40	0.44	0.37	0.25	0.28	0.32	0.30	0.32	(0.02)	0.11

Rates – The Importance of the 2-Year Treasury – a Look at Current Spreads and Spreads from 1994





Interesting Reads that didn't make the Report:

- Minneapolis Fed, Neel Kashkari statement, Policy Has Tightened a Lot. Is It Enough? 5/6/22
- Cleveland Fed, Mester speech, The Great Recalibration of U.S. Monetary Policy, 5/13/22