

Page 1 – Speeches & Reports

- Powell – Future rate hikes are priced in.
- Inflation – Persistent equals strong response.
- Inflation – 2022 lockdowns less severe.

Page 2 – Economic Indicators & Rate Trends

Powell – Rate Hikes are Instore until Inflation Abates

- “What we need to see is inflation coming down in a clear and convincing way and we’re going to keep pushing until we see that.”
- “Monetary policy works through expectations, so markets are pricing in a significant series of future rate hikes ... we like to work through expectations ... it’s been good to see financial markets reacting in advance based on the way we’re speaking about the economy ... the consequence, as I mentioned, is that financial conditions overall have tightened significantly ... and that’s what we need.”
- Regarding the neutral rate: “If that involves moving past broadly understood levels of neutral (approximately 2.50%), we won’t hesitate at all to do that, we won’t and honestly, we will go until we feel like we are at a place where we can say ‘yes’ financial conditions are at an appropriate place we see inflation coming down. We’ll go to that point and there won’t be any hesitation about that.”

Source: Fed Board, Powell interview with WSJ, as published on YouTube, 5/17/22

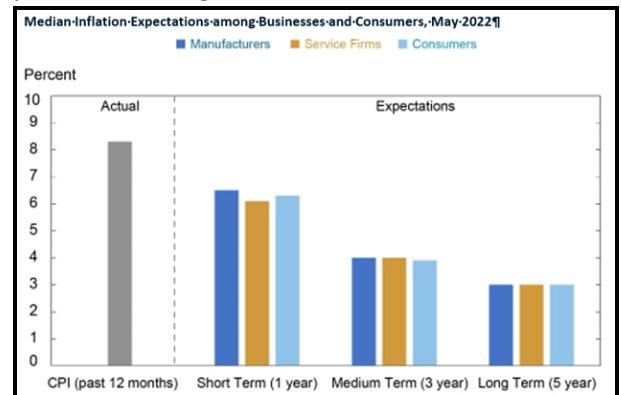
Inflation – Persistent equals a Stronger Policy Response

- “To achieve the Federal Reserve’s goal of 2% average inflation over time, Fed policymakers must assess how much persistent versus transitory shocks are driving movements in inflation. Transitory shocks are more benign because the resulting impacts on inflation tend to dissipate quickly, requiring little or no policy response. In contrast, persistent shocks can push inflation away from the Fed’s goal for sustained periods.”
- “This *Economic Letter* examines recent U.S. inflation in the context of historical data extending back to 1960 Applying this methodology to U.S. inflation indicates that the contribution of persistent shocks to inflation began increasing before the start of the pandemic, and this trend has continued through the most recent data. The prospect that recent elevated inflation is being driven by persistent shocks raises the risk that inflation will remain above 2% for a longer period. In such an environment, a strong and long-lasting policy response may be needed to achieve the Federal Reserve’s goal of 2% average inflation over time.”

Source: SF Fed, Untangling Persistent versus Transitory Shocks to Inflation, 5/23/22

Inflation – Elevated Levels are not Expected to Persist

- “Our May regional business surveys asked firms what they expected inflation to be one year, three years, and five years from now. Responses indicate that while businesses, like consumers, expect high inflation to continue over the next year, such elevated levels of inflation are not expected to persist over longer time horizons.”



Source: NY Fed, Do Businesses in the Region Expect High Inflation to Persist? 5/17/22

Inflation – Supply Chain Issues Might be Less Severe

- “Current lockdowns in China are still likely to weigh on the global supply chain, as China accounts for 30% of total world output. However, early evidence suggests that disruptions from the current lockdown might be less severe than the lockdown in 2020, likely due to two factors. First, although many local governments in China have tightened their COVID-19 restrictions following the Shanghai lockdown, these responses have been less synchronized relative to the Wuhan lockdown in 2020. Second, the Chinese government may have prioritized production to maintain growth despite restrictive COVID-19 policies ... If the lockdown lasts for a much longer period or extends to more regions, the impact could be larger.”

Source: KC Fed, How Has the Current Lockdown in China Affected the Global Supply Chain? 5/20/22

Quote of the Week

“You will ever remember that all the end of study is to make you a good man and a useful citizen.”

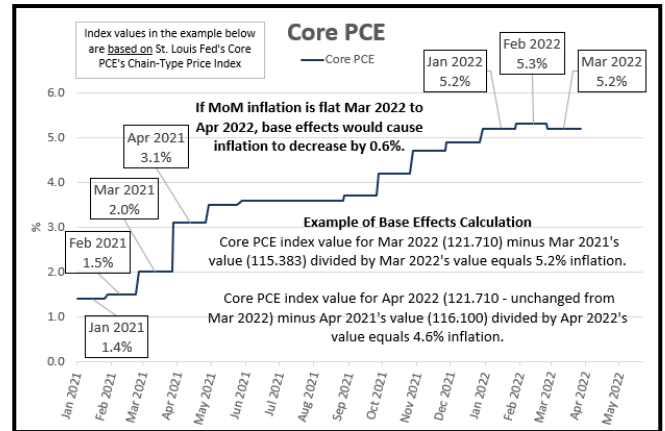
--- John Adams

Fed Unfiltered – Subscribe for \$24.00 a Year

- We report on the Federal Reserve Board and the 12 Districts, and their impact on rates.
- Instead of an analysis, read what the Fed actually said in their published reports, speeches and interviews.
- Search a growing database of Fed commentary and receive a Weekly Report outlining the week’s key info.

Economic Indicators:

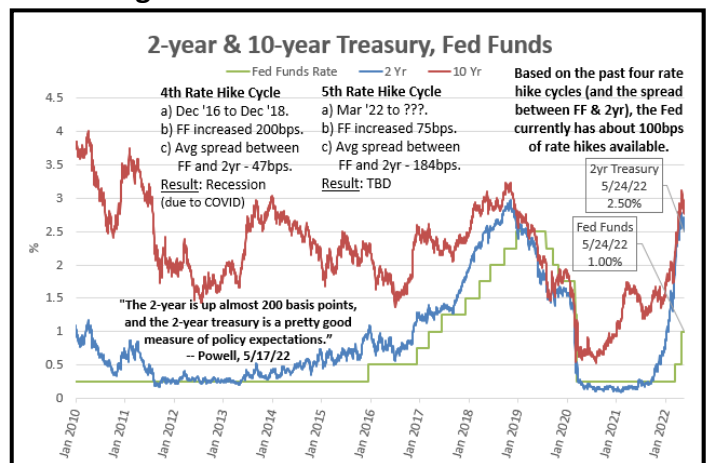
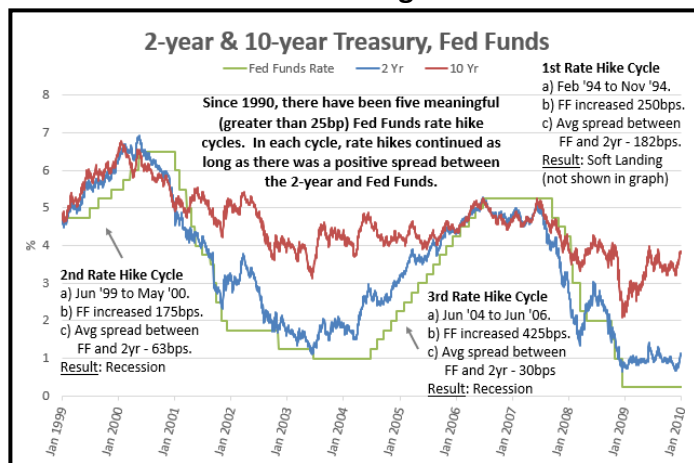
- Unemployment: 3.6% Apr (Fed's Long Run Rate: 4.0%)
 - May's unemployment #'s to be released 6/3/22.
- Core PCE: 5.2% Mar (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Mar: 3.70%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.87%.
 - Yield on Treasury minus yield on TIPS.
 - April's Core PCE will be released Friday.
 - The median consensus for April is 4.9%.
- GDP: -1.4% Q4 (Adv Est.) (Fed's Longer Run Rate 1.8%)
 - Q1 GDP (2nd Estimate) to be released Thursday.
 - Median consensus for the 2nd est. is -1.3%.



Rates --- 10-Day Trends

Key Interest Rates	5/10/22	5/11/22	5/12/22	5/13/22	5/16/22	5/17/22	5/18/22	5/19/22	5/20/22	5/23/22	5/24/22	10-Day Average	10-Day Avg vs 5/24/22	10-Day Change
Fed Funds Target Rate (FFTR)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.00	0.00
Standing Repo Facility (SRF)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.00	0.00
Interest on Reserve Balances (IORB)	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.00	0.00
Effective Fed Funds Rate (EFFR)	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.00	0.83	0.00	0.00
Overnight Reverse Repo Facility (ON RRP)	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,942,008	8,942,008	8,942,008	8,942,008	8,942,008	8,942,008	8,945,898	8,945,898	8,945,898	8,945,898	8,945,898	8,943,776	↓ (2,122)	↑ 3,890
BSBY - Overnight	0.832	0.834	0.833	0.826	0.830	0.821	0.819	0.818	0.822	0.821	0.828	0.825	↑ 0.003	↓ (0.006)
BSBY - 1-month	0.836	0.832	0.832	0.834	0.833	0.835	0.835	0.850	0.856	0.863	0.868	0.844	↑ 0.025	↑ 0.036
SOFR - Overnight	0.780	0.780	0.790	0.790	0.800	0.800	0.790	0.790	0.780	0.780	0.000	0.788	↓ (0.008)	0.000
SOFR - 30-Day Average	0.367	0.383	0.399	0.415	0.465	0.482	0.499	0.516	0.533	0.584	0.601	0.488	↑ 0.114	↑ 0.219
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.787	0.784	0.782	0.796	0.863	0.864	0.872	0.908	0.922	0.964	0.972	0.873	↑ 0.099	↑ 0.188
US Treasury - 3-Month	0.89	0.91	0.96	1.03	1.07	1.06	1.03	1.05	1.03	1.07	1.06	1.03	↑ 0.03	↑ 0.15
US Treasury - 2-Year	2.62	2.66	2.56	2.61	2.58	2.71	2.68	2.63	2.60	2.65	2.50	2.62	↓ (0.12)	↓ (0.16)
US Treasury - 10-Year	2.99	2.91	2.84	2.93	2.88	2.98	2.88	2.84	2.78	2.86	2.76	2.87	↓ (0.11)	↓ (0.15)
US Treasury - 20-Year	3.31	3.25	3.22	3.32	3.30	3.36	3.24	3.24	3.17	3.26	3.16	3.25	↓ (0.09)	↓ (0.09)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	2.10	2.00	1.88	1.90	1.81	1.92	1.85	1.79	1.75	1.79	1.70	1.84	↓ (0.14)	↓ (0.30)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.37	0.25	0.28	0.32	0.30	0.27	0.20	0.21	0.18	0.21	0.26	0.25	↑ 0.01	↑ 0.01

Rates – The Market is Watching the Fed while the Fed is Watching the Market



Interesting Reads that didn't make the Report:

- Dallas Fed, Russia's War on Ukraine Will Leave Scars on U.S., World Economies, 5/17/22
- Boston Fed, Payments Evolution from Paper to Electronic Payments by Merchant Type, 5/17/22
- Fed Board, Economic Well-Being of U.S. Households in 2021, 5/23/22

Fed Unfiltered – Subscribe for \$24.00 a Year

- We report on the Federal Reserve Board and the 12 Districts, and their impact on rates.
- Instead of an analysis, read what the Fed actually said in their published reports, speeches and interviews.
- Search a growing database of Fed commentary and receive a Weekly Report outlining the week's key info.