

## Page 1 – Speeches & Reports

- *Fed Presidents – 1994, a Benchmark/Template.*
- *Inflation – Might Be Elevated till May 2023.*
- *US Dollar – Down, but Definitely Not Out.*

## Page 2 – Economic Indicators & Rate Trends

### Kashkari – 75bps in July is Likely, then 50bps thereafter

- **1994 Tightening:** a good “benchmark” to follow.
- **Rate Hikes:** “So, while I supported increasing the federal funds rate by 75 basis points at this week’s meeting, and could support another such move in July, this uncertainty about how much tightening will be needed leads me to be cautious about too much more front-loading. A prudent strategy might be, after the July meeting, to simply continue with 50-basis-point hikes until inflation is well on its way down to 2 percent.

Source: Neel Kashkari, Essay: Policy Has Tightened a Lot. Is It Enough? (An Update), 6/17/22

### Daly – 75bps in July is Likely, with a YE Goal of Neutral

- **1994 Tightening:** referenced in the speech.
- **Rate Hikes:** “Last week, the FOMC increased the funds rate by 75 basis points and signaled that further rate hikes of a similar magnitude are likely ... and puts policy on an expeditious path to neutral by the end of the year. After that, I see additional tightening beyond neutral as the likely next step ... How much additional tightening will be required depends on a number of factors that fall outside of the Fed’s direct control, including the speed and magnitude of supply chain recovery, the duration of the war in Ukraine, and the willingness of individuals who have left the labor force to reenter.”

Source: Mary Daly, Speech: Policy Nimbleness Through Forward Guidance, 6/24/22

### Bullard – Front Load and Shoulder the Volatility

- **1994 Tightening:** a good “template” to follow.
- **Rate Hikes:** “The analogy here would be with all this front loading; we’ll do the front loading this year. It does cause disruption in financial markets ... we’re asking people to shoulder that volatility. Get the policy rate up to where you need it to be, for now, for this inflation situation that we have today. And then, if all goes well and inflation starts coming down toward target, you won’t need the policy rate to be so high and we can do some of the cuts in the same way that we did in 1995.”

Source: James Bullard, Interview: Central Banks and Inflation, a UBS panel discussion as posted on the St. Louis Fed website, 6/24/22

### Inflation Expectations – The Market Believes in the Fed

- “The effectiveness of monetary policy hinges critically on inflation expectations. If economic agents, such as households and firms, expect higher inflation in the future, the rational reaction is to purchase goods and services right away in order to avoid higher future prices. As a result, the demand for goods and services immediately rises and so does the price level, which results in higher inflation right away. Hence, the Federal Reserve needs to anchor economic agents’ long-term inflation expectations close to the inflation target in order to effectively combat inflation.”
- “In short, according to the inflation swap data, market participants believe the Federal Reserve can and will control the high inflation rate, despite price increases being more persistent than previously thought. The well-anchored longer-term inflation expectation provides additional supporting evidence of this.”

Source: St. Louis Fed, Report: What Do Financial Markets Say about Future Inflation? 6/23/22

### Inflation – Projected to Remain Elevated thru May ‘23

- “Recent oil price hikes and tighter financial conditions have dominated the news. We use approximations of the drivers behind these developments to quantify the twelve-month outlook for CPI inflation in the U.S. ... inflation is projected to ease somewhat but will remain elevated by May 2023. The forecast distributions do indicate, however, a higher likelihood of a larger-than-expected easing of inflation in the U.S. ... mainly driven by a reversal of the inflationary impact of recent oil supply shocks and monetary policy tightening.”

Source: NY Fed, Report: How Could Oil Price and Policy Rate Hikes Affect the Near-Term Inflation Outlook? 6/24/22

### US Dollar – Will it Continue to Rule?

- “The upshot is that the dollar’s role as the dominant (*international*) reserve currency will likely persist” ... (*with a likelier prospect of*) “a reshuffling of the relative importance of other currencies while the dollar retains its primacy. Rather than knocking the dollar off its pedestal, new technologies and geopolitical developments might entrench its position.”

Source: IMF, Report: Enduring Preeminence, The US Dollar Might Slip, but it will Continue to Rule, 6/24/22

#### Quote of the Week

“Creativity is contagious. Pass it on.”

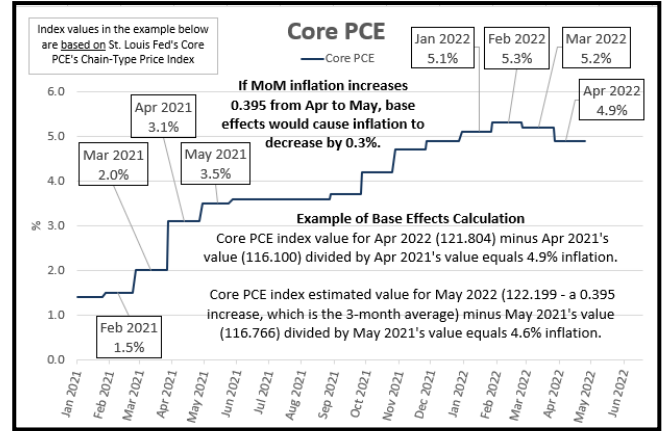
--- Albert Einstein

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**Economic Indicators:**

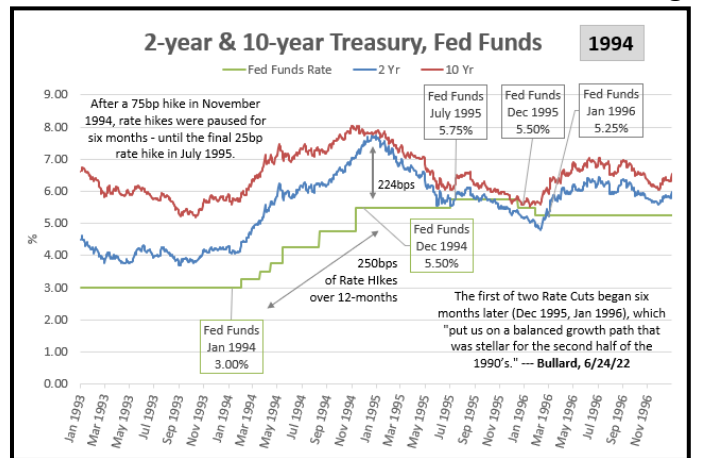
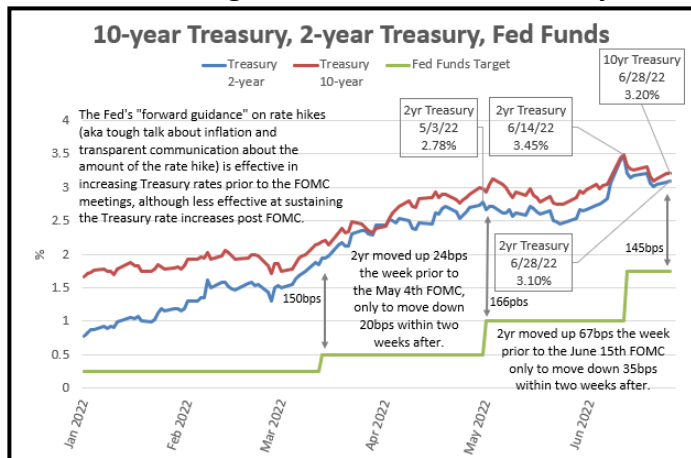
- GDP: -1.5% Q1 (2<sup>nd</sup> Est.) (Fed's Longer Run Rate 1.8%)
  - Q1 GDP (3rd Estimate) to be released tomorrow.
  - 3<sup>rd</sup> Est. Q1 GDP is expected to remain -1.5%.
- Core PCE: 4.9% Apr (Fed's Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for Apr: 3.75%
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 2.73%
    - Yield on Treasury minus yield on TIPS.
    - 5yr Breakeven decreased from late March peak (3.59%), due to aggressive rate hikes.
  - May's Core PCE will be released Thursday.
- Unemployment: 3.6% May (Fed's Long Run Rate: 4.0%)
  - May's unemployment #'s to be released 7/8/22.



**Rates --- 10-Day Trends**

Key Interest Rates	6/13/22	6/14/22	6/15/22	6/16/22	6/17/22	6/21/22	6/22/22	6/23/22	6/24/22	6/27/22	6/28/22	10-Day Average	10-Day Avg vs 6/28/22	10-Day Change
Fed Funds Target Rate (FFTR)	1.00	1.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.68	↑ 0.08	↑ 0.75
Standing Repo Facility (SRF)	1.00	1.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.68	↑ 0.08	↑ 0.75
Interest on Reserve Balances (IORB)	0.90	0.90	0.90	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.50	↑ 0.15	↑ 0.75
Effective Fed Funds Rate (EFFR)	0.83	0.83	0.83	1.58	1.58	1.58	1.58	1.58	1.58	1.58	0.00	1.36	↑ 0.23	↑ 0.75
Overnight Reverse Repo Facility (ON RRP)	0.80	0.80	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.48	↑ 0.07	↑ 0.75
Fed's Balance Sheet (Total Assets in Millions)	8,918,254	8,918,254	8,932,420	8,932,420	8,932,420	8,932,420	8,934,346	8,934,346	8,934,346	8,934,346	8,934,346	8,930,720	↓ (3,626)	↑ 16,092
BSBY - Overnight	0.835	0.825	0.829	0.829	0.992	1.554	1.579	1.580	1.580	1.588	1.583	1.294	↑ 0.289	↑ 0.758
BSBY - 1-month	1.202	1.214	1.260	1.328	1.489	1.572	1.598	1.610	1.617	1.610	1.601	1.490	↑ 0.111	↑ 0.387
SOFR - Overnight	0.730	0.690	0.700	1.450	1.450	1.450	1.450	1.440	1.460	1.500	0.000	1.232	↑ 0.268	↑ 0.770
SOFR - 30-Day Average	0.779	0.777	0.774	0.771	0.792	0.881	0.903	0.926	0.948	1.016	1.040	0.883	↑ 0.157	↑ 0.263
SOFR - Term Rate - 1-Month (CME Term SOFR)	1.279	1.334	1.477	1.509	1.507	1.499	1.505	1.497	1.486	1.518	1.525	1.486	↑ 0.040	↑ 0.192
US Treasury - 3-Month	1.73	1.83	1.74	1.59	1.63	1.70	1.61	1.65	1.73	1.79	1.79	1.71	↑ 0.08	↓ (0.04)
US Treasury - 2-Year	3.40	3.45	3.20	3.14	3.17	3.21	3.06	3.01	3.04	3.08	3.10	3.15	↓ (0.05)	↓ (0.35)
US Treasury - 10-Year	3.43	3.49	3.33	3.28	3.25	3.31	3.16	3.09	3.13	3.20	3.20	3.24	↓ (0.04)	↓ (0.29)
US Treasury - 20-Year	3.68	3.72	3.64	3.59	3.55	3.63	3.49	3.45	3.51	3.56	3.55	3.57	↓ (0.02)	↓ (0.17)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	1.70	1.66	1.59	1.69	1.62	1.61	1.55	1.44	1.40	1.41	1.41	1.54	↓ (0.13)	↓ (0.25)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.03	0.04	0.13	0.14	0.08	0.10	0.10	0.08	0.09	0.12	0.10	0.10	0.00	↑ 0.06

**Rates – More Tough Talk from the Fed is Likely on the Horizon – and – Another Look at 1994's Soft Landing**



**Interesting Reads that didn't make the Report:**

- Michelle Bowman, Speech: The Outlook for Inflation and Monetary Policy, 6/23/22
- NY Fed, Report: The First Global Credit Crisis, 6/27/22
- SF Fed, Report: Credit Conditions in the Pandemic Mortgage Market, 6/27/22

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