

Page 1 – Speeches & Reports

- *Daly – To neutral and take a look around.*
- *Mester – Rate hikes and then gauge progress.*
- *Brainard – 2.0% Inflation trajectory is needed.*

Page 2 – Economic Indicators & Rate Trends

FOMC – Next Meeting is June 14-15

- 50bp rate hikes are expected for both the June 14-15 and the July 26-27 mtgs – increasing FF to 2.00%.
 - Another 50bp hike at Sept 20-21 mtg, would put FF at the current neutral rate of 2.50%.
 - Which would leave two meetings before YE – Nov 1-2, Dec 13-14 – the Fed could either pause or increase rates beyond neutral.
 - In the upcoming Jun SEP, we’re likely to see a higher neutral rate – possibly as high at 3.50%
 - Bullard’s ideal target for FF at YE is 3.50%.
 - Taylor Rule calc puts neutral at about 3.39%.

	Real Interest Rate (R-star) ⁽¹⁾	Current Inflation (Core PCE)	GDP Output above Potential (Out) ⁽²⁾	Inflation Target (T)
Inputs	minus 291bps	4.90	0.80	2.00
Calc	R-star + Core PCE + 1/2 (Out) + 1/2 (T) = Taylor Rule's Fed Funds			
	(-2.91 + 4.90) = 1.99 + (0.40) = 2.39 + (1.00) = 3.39%			
<small>(1) R-Star - St. Louis Fed 1-Year Real Interest Rate</small>				
<small>(2) Out - 12-month average of GDP (3.6%) minus Fed's March SEP GDP forecast for YE22 (2.8%).</small>				

Daly – Hikes to Neutral and then Take a Look Around

- “We need to get the rate up to neutral, which I put at about 2.50% in nominal terms ... and I see a couple of 50 basis point hikes immediately in the next couple of meetings to get there ... and then we need to look around and see what else is going on ... (supply chains, China, war in Ukraine, consumer behavior, impact of rate hikes, loss of accommodation) ... we know where we want to be at the end of the year, which is around 2.5% in the interest rate ... let’s get there as quickly as we can.”
Source: SF Fed, Mary Daly Interview with CNBC, as published on YouTube, 6/1/22

Mester – Bring Up Rates, See How Demand is Reacting

- Regarding rates and inflation: “Really the process is bring interest rates up, keep that going, look at how demand is reacting to that. We’ve already seen tightening of financial conditions and that’ll help temper demand ... I don’t want to declare victory on inflation before I see really compelling evidence that our actions are beginning to do the work of bringing demand into better balance with aggregate supply.”
Source: Cleveland Fed, Loretta Mester interview on CNBC, as published on YouTube, 6/3/22

Brainard – Consistent String of Lower Inflation Needed

- Regarding whether inflation has peaked: “So, on inflation I’m going to be looking to see a consistent string of decelerating monthly prints on core inflation before I’m going to feel more confident that we’re getting to the kind of inflation trajectory that’s going to get us back to our 2% goal.”
Source: Fed Board, Leal Brainard interview with CNBC, as published on YouTube, 6/2/22

Beige Book – Continued Growth, Recession Concerns

- All twelve Federal Reserve Districts have reported continued economic growth since the prior Beige Book period ... Contacts in most Districts reported ongoing growth in manufacturing. Retail contacts noted some softening as consumers faced higher prices, and residential real estate contacts observed weakness as buyers faced high prices and rising interest rates. Contacts tended to cite labor market difficulties as their greatest challenge, followed by supply chain disruptions ... Eight Districts reported that expectations of future growth among their contacts had diminished; contacts in three Districts specifically expressed concerns about a recession.”
Source: Fed Districts, Beige Book, 6/1/22

Jobs – The Great Resignation vs. the Great Reallocation

- “In 2021, the Great Resignation narrative gained traction in the discourse on how COVID-19 permanently changed workers’ relationship to work. Following a voluntary separation, a worker can flow into either unemployment or employment with another employer. A careful consideration of this movement reveals that the latter—that is, job-to-job transitions—drives most of the change in the total number of quits during 2021. The so-called Great Resignation may therefore be more appropriately dubbed the Great Reallocation, as quits largely don’t reflect a desire to stop working altogether, but to find new (and presumably better) employment.”
- “Consistent with our previous work using industry-level evidence, the most sizable increase in job-to-job transitions comes from nonroutine manual occupations, of which service industry jobs make up a large proportion.”
Source: St. Louis Fed, The Great Resignation vs. the Great Reallocation Revisited, 6/2/22

Quote of the Week

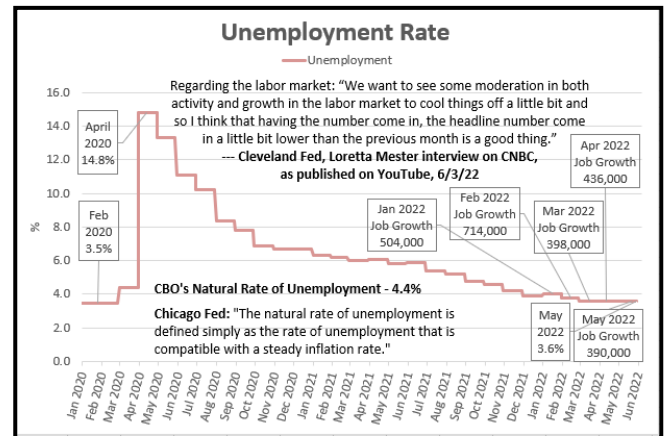
“We are all teachers and students of ourselves.”
--- A. Bartlett Giamatti (American professor)

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:

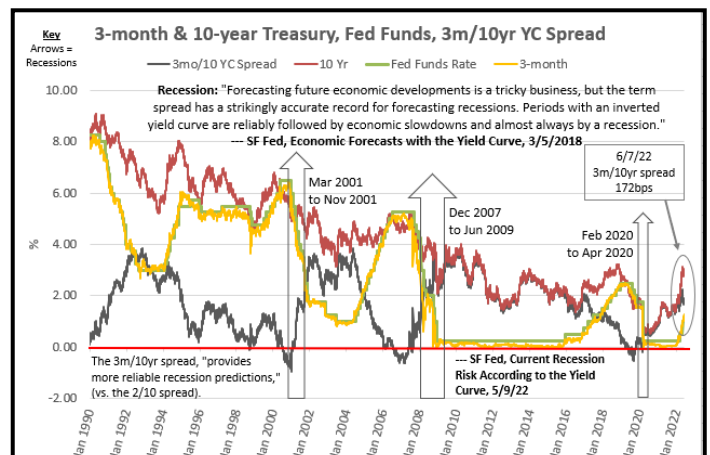
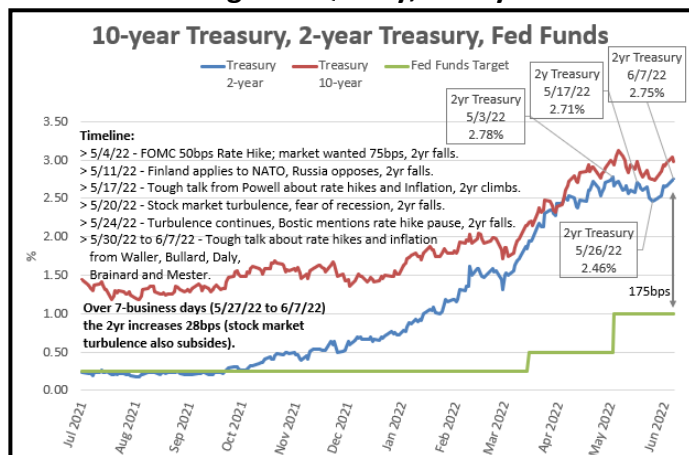
- GDP: -1.5% Q1 (2nd Est.) (Fed's Longer Run Rate 1.8%)
 - Q1 GDP (3rd Estimate) to be released 6/29/22.
- Core PCE: 4.9% Apr (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Apr: 3.75%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 3.03%.
 - Yield on Treasury minus yield on TIPS.
 - May's Core PCE will be released 6/30/22.
- Unemployment: 3.6% May (Fed's Long Run Rate: 4.0%)
 - BLS: "Notable job gains occurred in leisure & hospitality, in professional & business services, and in transportation and warehousing. Employment in retail trade declined."
 - May's unemployment #'s to be released 7/8/22.



Rates --- 10-Day Trends

Key Interest Rates	5/23/22	5/24/22	5/25/22	5/26/22	5/27/22	5/31/22	6/1/22	6/2/22	6/3/22	6/6/22	6/7/22	10-Day Average	10-Day Avg vs 6/7/22	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	0.83	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)	8,945,898	8,945,898	8,914,281	8,914,281	8,914,281	8,914,281	8,915,050	8,915,050	8,915,050	8,915,050	8,915,050	8,820,379	5,329	30,848
BSBY - Overnight	0.821	0.828	0.828	0.827	0.821	0.825	0.835	0.832	0.829	0.822	0.821	0.827	(0.005)	(0.007)
BSBY - 1-month	0.863	0.868	0.869	0.871	0.881	0.920	0.957	0.984	1.010	1.010	1.015	0.939	0.077	0.147
SOFR - Overnight	0.780	0.780	0.780	0.780	0.780	0.790	0.800	0.790	0.780	0.780	0.000	0.784	(0.004)	0.000
SOFR - 30-Day Average	0.584	0.601	0.618	0.635	0.653	0.719	0.736	0.753	0.769	0.785	0.785	0.705	0.079	0.184
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.964	0.972	0.975	1.034	1.045	1.081	1.088	1.126	1.143	1.158	1.184	1.081	0.103	0.212
US Treasury - 3-Month	1.07	1.06	1.06	1.07	1.08	1.16	1.15	1.17	1.21	1.26	1.26	1.15	0.11	0.20
US Treasury - 2-Year	2.65	2.50	2.48	2.46	2.47	2.53	2.66	2.65	2.66	2.73	2.75	2.59	0.16	0.25
US Treasury - 10-Year	2.86	2.76	2.75	2.75	2.74	2.85	2.94	2.92	2.96	3.04	2.98	2.87	0.11	0.22
US Treasury - 20-Year	3.26	3.16	3.14	3.18	3.16	3.28	3.31	3.30	3.33	3.41	2.35	3.16	(0.81)	(0.81)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	1.79	1.70	1.69	1.68	1.66	1.69	1.79	1.75	1.75	1.78	1.72	1.72	0.00	0.02
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.21	0.26	0.27	0.29	0.27	0.32	0.28	0.27	0.30	0.31	0.23	0.28	(0.05)	(0.03)

Rates – After a Flight to Quality, the 2yr Returns – and – To Be a Recession or Not to Be ...



Interesting Reads that didn't make the Report:

- NY Fed, Williams speech, The Song Remains the Same, 6/1/22
- NY Fed, Lorie Logan speech, Considerations on the Road Ahead for Monetary Policy Implementation, 6/2/22
- Fed Board, Waller speech, Risk in the Crypto Markets, 6/3/22

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.