

Page 1 – Speeches & Reports

- Rate Hikes – 75bps still on the table.
- GDP – Bullard & Williams, growth in 2022.
- QT – This round could be disruptive.

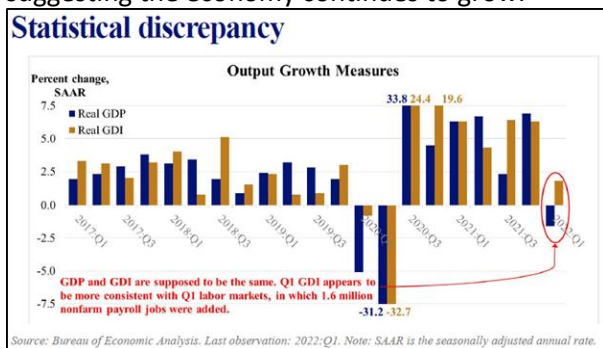
Page 2 – Economic Indicators & Rate Trends

Rate Hikes – Next FOMC meeting is July 26-27

- 75bp hike is still on the table for July.
- Strong jobs growth on Friday & the continuation of elevated inflation (June’s CPI will be released tomorrow) means aggressive rate hikes will likely continue over the next 3-mtgs (July, Sept, Nov).

Bullard – Indicators Suggest Continued Growth Ahead

- “Real-time indicators of U.S. gross domestic product (GDP) growth suggest continued expansion in the quarters ahead. U.S. GDP, the total value of goods and services produced domestically, is supposed to equal U.S. GDI, the total value of income earned domestically.”
- “However, these two numbers do not match, and this is called a “statistical discrepancy. Because of this discrepancy, these two measures of output provide conflicting views of recent economic conditions: GDP suggests a declining economy, but GDI points to a growing economy.”
- “At this point, it appears that the GDI measure is more consistent with observed labor markets, suggesting the economy continues to grow.”



Source: Bureau of Economic Analysis. Last observation: 2022:Q1. Note: SAAR is the seasonally adjusted annual rate. Source: James Bullard, Speech: The First Steps Toward Disinflation in the U.S., 7/7/22

Williams – Growth Expected, although a Slower Pace

- GDP: “The economy experienced a rapid recovery from the pandemic last year, but I expect growth to slow considerably this year as the waning effects of fiscal stimulus, less favorable financial conditions, and slower growth abroad all weigh on our economy. Specifically, I currently expect real GDP growth in the United States to be below one percent this year, and then to rebound slightly to around 1-1/2 percent next year.”
- Jobs: “With overall growth slowing to below its trend level, I expect the unemployment rate to

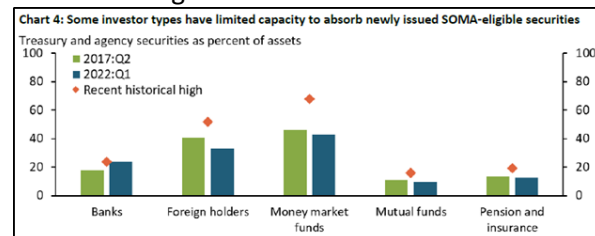
move up from its very low current level, reaching somewhat above 4 percent next year.”

- The Bumpy Road: “With tighter monetary policy in place, supply and demand will be brought back into balance, and inflation will return to our 2 percent longer-run goal. This may take some time and may well be a bumpy road.”

Source: John Williams, Speech: Price Stability: The Foundation for a Strong Economy, 7/8/22

QT – This Round of QT Could be More Disruptive

- “Quantitative tightening (QT)—the reduction in the Federal Reserve’s balance sheet—will transfer a significant amount of Treasury and agency mortgage-backed securities to investors. This transfer will be larger than the first endeavor with QT in 2017 and will occur at a time when financial markets are strained, suggesting this round of QT has the potential to be more disruptive compared with the benign start to the 2017 runoff.”



- “In addition, some investor types have limited scope to purchase newly issued SOMA-eligible securities as the Federal Reserve reduces its balance sheet. During 2020–21, the Federal Reserve purchased more than half of the increase in outstanding SOMA-eligible securities. With outstanding volume still increasing and the Federal Reserve withdrawing as the principal buyer, non-Fed investors will have to significantly increase their holdings. The orange diamonds in Chart 4 show the maximum share of SOMA-eligible securities held by each investor type since 2000 ... along with their shares in 2017 and 2022. The distance between the bars and diamonds indicates the capacity of those investors to increase their holdings.”

Source: KC Fed, Report: Assessing Market Conditions ahead of Quantitative Tightening, 7/11/22

Quote of the Week

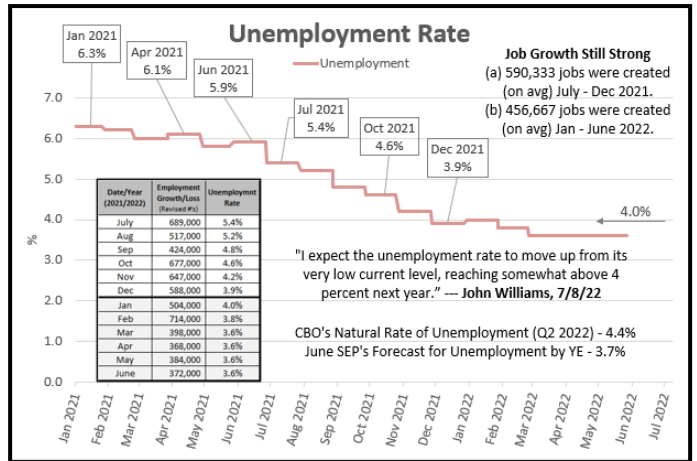
“What you get by achieving your goals is not as important as what you become by achieving your goals”
Goethe (German writer)

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Economic Indicators:

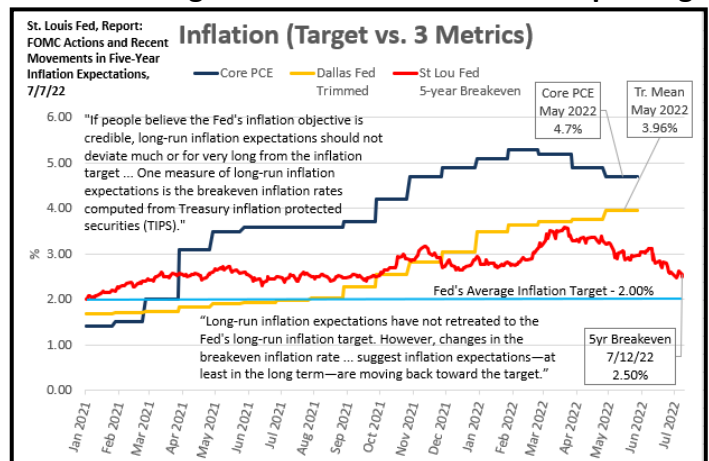
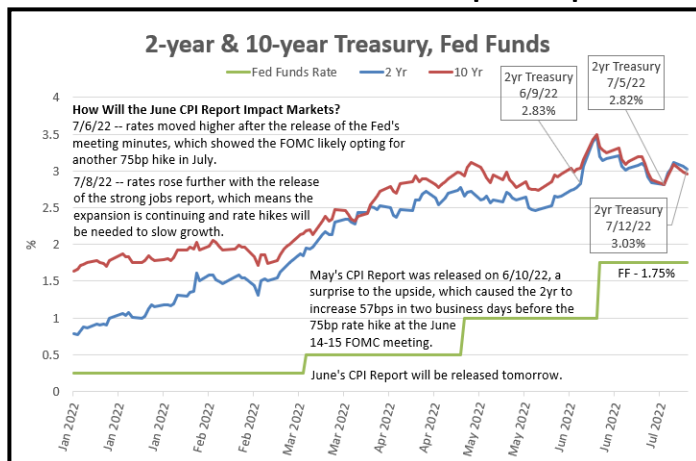
- GDP: -1.6% Q1 (3rd Est.) (Fed's Longer Run Rate 1.8%)
 - Q2 GDP (Adv. Estimate) to be released 7/28/22.
- Core PCE: 4.7% May (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for May: 3.96%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.50%.
 - Yield on Treasury minus yield on TIPS.
 - June's Core PCE will be released 7/29/22.
- Unemployment: 3.6% Jun (Fed's Long Run Rate: 4.0%)
 - 372,000 jobs were created in June, a surprise to the upside (consensus was 250,000), which means the economy continues to expand.
 - July's unemployment #'s to be released 8/5/22.



Rates --- 10-Day Trends

Key Interest Rates	6/27/22	6/28/22	6/29/22	6/30/22	7/1/22	7/5/22	7/6/22	7/7/22	7/8/22	7/11/22	7/12/22	10-Day Average	10-Day Avg vs 7/12/22	10-Day Change
Fed Funds Target Rate (FFTR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	0.00	0.00
Standing Repo Facility (SRF)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	0.00	0.00
Interest on Reserve Balances (IORB)	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	0.00	0.00
Effective Fed Funds Rate (EFFR)	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	0.00	1.58	0.00	0.00
Overnight Reverse Repo Facility (ON RRP)	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,934,346	8,934,346	8,913,553	8,913,553	8,913,553	8,913,553	8,891,851	8,891,851	8,891,851	8,891,851	8,891,851	8,807,469	15,618	42,495
BSBY - Overnight	1.588	1.583	1.584	1.584	1.589	1.587	1.592	1.579	1.580	1.575	1.572	1.582	(0.010)	(0.010)
BSBY - 1-month	1.610	1.601	1.601	1.613	1.622	1.638	1.639	1.658	1.707	1.718	1.750	1.655	0.095	0.149
SOFR - Overnight	1.500	1.520	1.510	1.500	1.520	1.540	1.540	1.540	1.530	1.530	0.000	1.523	0.007	0.030
SOFR - 30-Day Average	1.016	1.040	1.064	1.089	1.112	1.210	1.236	1.261	1.287	1.364	1.390	1.205	0.185	0.351
SOFR - Term Rate - 1-Month (CME Term SOFR)	1.518	1.525	1.599	1.686	1.728	1.730	1.749	1.824	1.868	1.926	1.944	1.758	0.186	0.419
US Treasury - 3-Month	1.79	1.79	1.78	1.72	1.73	1.90	1.90	1.95	1.98	2.18	2.22	1.92	0.31	0.43
US Treasury - 2-Year	3.08	3.10	3.06	2.92	2.84	2.82	2.97	3.03	3.12	3.07	3.03	3.00	0.03	(0.07)
US Treasury - 10-Year	3.20	3.20	3.10	2.98	2.88	2.82	2.93	3.01	3.09	2.99	2.96	3.00	(0.04)	(0.24)
US Treasury - 20-Year	3.56	3.55	3.46	3.38	3.35	3.31	3.42	3.45	3.53	3.43	3.37	3.43	(0.05)	(0.18)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	1.41	1.41	1.32	1.26	1.15	0.92	1.03	1.06	1.11	0.81	0.74	1.08	(0.34)	(0.67)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.12	0.10	0.04	0.06	0.04	0.00	(0.04)	(0.02)	(0.03)	(0.08)	(0.07)	0.00	(0.07)	(0.17)

Rates – How will Tomorrow's CPI Report Impact Markets – and – Long-Term Inflation Trends are Improving



Interesting Reads that didn't make the Report:

- Fed Board, Report: Minutes of the Federal Open Market Committee, June 14–15, 2022, 7/6/22
- Richmond Fed, Report: Why Stablecoins Fail: An Economist's Post Mortem on Terra, 7/6/22
- Leal Brainard, Speech: Crypto-Assets and Decentralized Finance through a Financial Stability Lens, 7/8/22

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