Fed Unfiltered

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Rate Hikes – Forecasts are for FF to Double by YE
- Next FOMC meeting is July 26-27.
- Currently, a 75bp rate hike is expected.
- Fed's YE target is 3.40% (according to June's SEP).
- There are four more meetings in 2022.
  - July 26-27, Sept 20-21, Nov 1-2, Dec 13-14.
  - Next SEP (Fed's forecasts) will be out in Sept.
- Fed's longer run rate or neutral rate is still 2.50%, which is Fed's goal, once inflation is addressed.

Rate Hikes – Getting the Policy Mix Just Right
- "In year-on-year terms, core PCE inflation has likely peaked, but it remains at high levels, and median PCE inflation continues to rise, underlining the broad-based nature of price pressures."
- "The policy priority now must be to expeditiously slow wage and price growth without precipitating a recession. This will be a tricky task. Global supply constraints and domestic labor shortages are likely to persist, and the Russian invasion of Ukraine is creating additional uncertainties."
- "The stakes are clearly high. Misjudging the policy mix—in either direction—will result in sizable economic costs at home and negative outward spillovers to the global economy. An overly forceful policy response runs the risk of triggering an abrupt tightening in financial conditions and a U.S. recession, creating negative spillovers to the global economy. An insufficient shift in policies, though, would risk creating a prolonged period of high inflation that will necessitate even stronger—and more economically costly—measures in the future."

  Source: IMF, Report: United States of America, Concluding Statement of the 2022 Article IV Mission, 6/24/22

Rate Hikes – Lesson Learned, Inflation before Growth
- "Given these similarities, the 1972 inflationary episode may have lessons for policymakers today. From August 1972 to September 1973, the Federal Open Market Committee (FOMC) increased the federal funds rate by 6 percentage points, from 4.8 percent to 10.8 percent, an average of about 50 basis points per month. However, in October 1973, the FOMC abruptly reversed course and undertook a series of rate cuts despite continued inflationary pressures. By March 1974, the FOMC resumed rate hikes to tame inflation—even though real GDP had contracted by 3.4 percent in 1974:Q1—and the economy entered what would later be recognized as the start of a recession. Despite the rate hikes, inflation continued to rise until December 1974, when it reached its local peak of 12.3 percent. In hindsight, monetary policy historians often cite this episode as a cautionary tale that highlights the risks of trying to stimulate output before inflation has been contained (see Bernanke 2003)."
- Conclusion: "While policy in the 1980s illustrates the importance of sticking with the fight against inflation even when the economy is underperforming, the response of the FOMC to the 1972 inflation cycle serves as a cautionary tale for current policymakers, who have been quick to cite exceptional circumstances—such as the COVID-19 pandemic, supply chain disruptions, and Russia's invasion of Ukraine—as justifying a cautious approach to monetary policy in their policy statements. The Fed's experience in the 1970s suggests that, regardless of extenuating circumstances or potential slowdowns in activity, the FOMC will ultimately be judged by its willingness to maintain the fight against inflation until it has been fully contained."

  Source: KC Fed, Report: Inflation in 1972: A Cautionary Tale, 7/1/22

Rate Hikes – The Next Challenge, When to Back Off
- "Everybody talks about the Volcker moment of Oct. 6, 1979, when the strategy and structure of implementation of policy was changed to fight inflation."
- "I think there was a second Volcker moment that gets less publicity but is also important, and that occurred in the summer and fall of 1982. Paul Volcker said, "We've already got the economy in recession; inflation is down." It was only down, I think, to about 4 percent, so it was still pretty high. But he said, "Enough. We've accomplished a lot, the costs of continuing on this process outweigh the gains."
- "I think it requires judgment & confidence to know when to back off [as Volcker did], and that's going to be the next challenge for the Federal Reserve."

  Dallas Fed, Monetary Policy at a Crossroads: Donald Kohn on Controlling Inflation, Ukraine Effects, Volcker-Era Lessons, 7/5/22

Quote of the Week
"You can do anything, but not everything."
--- David Allen

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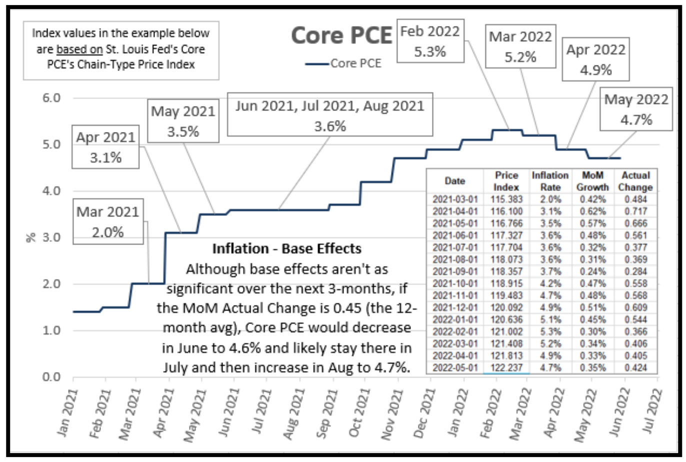
Economic Indicators:

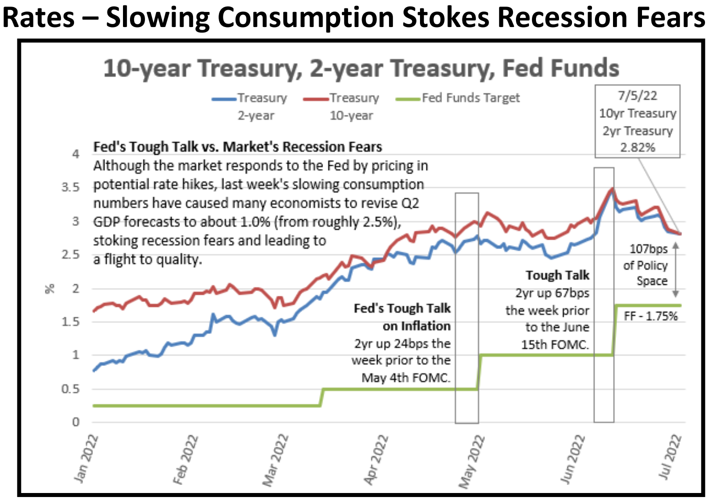
- GDP: -1.6% Q1 (3rd Est.) (Fed's Longer Run Rate 1.8%)
  - Q2 GDP (Adv. Estimate) to be released 7/28/22.
- Core PCE: 4.7% May (Fed's Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for May: 3.96%.
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 2.51%.
    - Yield on Treasury minus yield on TIPS.
  - June's Core PCE will be released 7/29/22.
- Unemployment: 3.6% May (Fed's Long Run Rate: 4.0%)
  - May's unemployment #'s to be released 7/8/22.
  - Median Consensus is job growth of 250,000.
  - Capital Economics, 7/1/22: "Overall, the evidence points to a continued slowdown in employment growth, rather than a collapse."

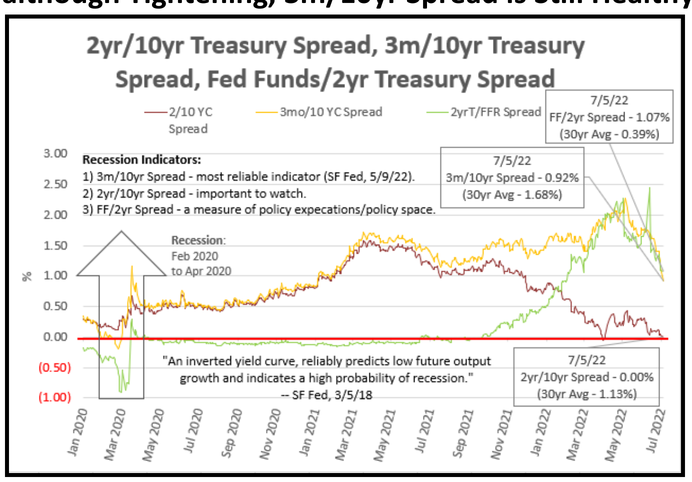


Rates --- 10-Day Trends

Key Interest Rates	6/17/22	6/21/22	6/22/22	6/23/22	6/24/22	6/27/22	6/28/22	6/29/22	6/30/22	7/1/22	7/5/22	10-Day Average	10-Day Avg vs 7/5/22	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	8,934,346	8,913,553	8,913,553	8,913,553	8,913,553	8,913,553	8,913,553	8,913,553	8,913,553	8,919,224	5,671	20,793
BSBY - Overnight	0.992	1.554	1.579	1.580	1.580	1.588	1.583	1.584	1.584	1.589	1.587	1.581	0.006	0.033
BSBY - 1-month	1.489	1.572	1.598	1.610	1.617	1.610	1.601	1.601	1.613	1.622	1.638	1.608	0.030	0.066
SOFR - Overnight	1.450	1.450	1.450	1.440	1.460	1.500	1.520	1.510	1.500	1.520	0.000	1.480	0.040	0.070
SOFR - 30-Day Average	0.792	0.881	0.903	0.926	0.948	1.016	1.040	1.064	1.089	1.112	1.210	1.019	0.191	0.329
SOFR - Term Rate - 1-Month (CME Term SOFR)	1.507	1.499	1.505	1.497	1.486	1.518	1.525	1.599	1.686	1.728	1.730	1.577	0.153	0.232
US Treasury - 3-Month	1.63	1.70	1.61	1.65	1.73	1.79	1.79	1.78	1.72	1.73	1.90	1.74	0.16	0.20
US Treasury - 2-Year	3.17	3.21	3.06	3.01	3.04	3.08	3.10	3.06	2.92	2.84	2.82	3.01	(0.19)	(0.39)
US Treasury - 10-Year	3.25	3.31	3.16	3.09	3.13	3.20	3.20	3.10	2.98	2.88	2.82	3.09	(0.27)	(0.49)
US Treasury - 20-Year	3.55	3.63	3.49	3.45	3.51	3.56	3.55	3.46	3.38	3.35	3.31	3.47	(0.16)	(0.32)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) **(30yr historical avg: 1.68)**	1.62	1.61	1.55	1.44	1.40	1.41	1.41	1.32	1.26	1.15	0.92	1.35	(0.43)	(0.69)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) **(30yr historical avg: 1.14)**	0.08	0.10	0.10	0.08	0.09	0.12	0.10	0.04	0.06	0.04	0.00	0.07	(0.07)	(0.10)

Rates – Slowing Consumption Stokes Recession Fears – although Tightening, 3m/10yr Spread is Still Healthy





Interesting Reads that didn't make the Report:

- Richmond Fed, Report: Experiences and Expectations of Inflation, 6/28/22
- St. Louis fed, Report: Russia's Invasion of Ukraine and its Impact on Stock Prices, 6/30/22
- Fed Board, Report: SPECIAL ISSUE, Policy Actions in Response to the COVID-19 Pandemic, 6/30/22