# Fed Unfiltered

8/2/22

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**Daly –Raise Rates and Leave them there for a While**

- "The outlook I think is most likely is really that we raise interest rates and then we hold them there for a while at whatever level we think is appropriate for accomplishing this dual mandate."
  Mary Daly, Interview: A Fortt Knox Conversation as published on LinkedIn, 8/2/22

**Mester – We have more Work (aka Rate Hikes) To Do.**

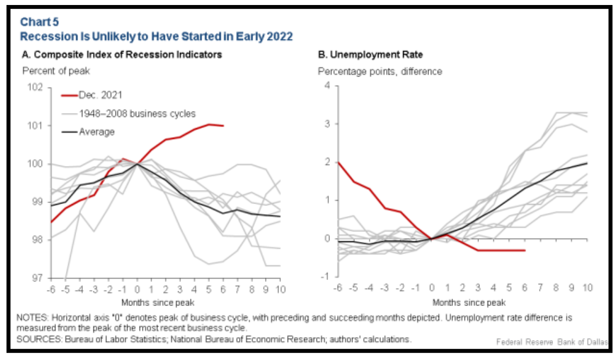
- Regarding addressing inflation: "We have our interest rate policy and that's what we've been embarking on. And we have more work to do, because we have not seen that turn in inflation. What we want to do is see it on a sustainable downward path towards our longer-run goal of 2 percent, and we have not seen that; we have more work to do."
  Loretta Mester, Interview: With the Washington Post Live, 8/2/22

**Evans – If No Improvement, Could be 75bps in Sept**

- Regarding a September rate hike: "If you really thought things weren't improving ... 50(bps) is a reasonable assessment but 75(bps) could also be okay. I doubt that more would be called for."
  Charles Evans, Interview: Question and Answer Session at the Chicago Fed, 8/2/22

**Recession – If so, Not Quite Like Any of the Past Ones**

- "Chart 5, Panel A shows the paths of our index in previous recessions and in 2022. It *(the index)* dipped below 100 within two months of the peak in every previous recession. By the sixth month, the average recession had a value of 98.7. By comparison, six months into 2022, the June index was 101.0, significantly above the path of a typical recessionary period."
- "The sharp contrast between the index's average recession path and the six-month path in 2022 suggests that a recession is unlikely to have started in first quarter 2022, despite two consecutive quarters of declining GDP in the first half of 2022."
- "The U.S. labor market as measured by the employment count has held up especially strongly in 2022 relative to past recessions, and a broad set of indicators suggests continued labor market tightness through the first half of the year."



Dallas Fed, Report: U.S. Likely Didn't Slip into Recession in Early 2022 Despite Negative GDP Growth, 8/2/22

**Inflation – Restoring Price Stability is Paramount**

- "Inflation rates in services—for everything from housing rents to personal services—appear to be picking up from already elevated levels, and they are unlikely to come down quickly. These pressures may be reinforced by rapid nominal wage growth … Such "second round effects" would translate into more persistent inflation and rising inflation expectations. Finally, a further intensification of geopolitical tensions that ignites a renewed surge in energy prices or compounds existing disruptions could also generate a longer period of high inflation."
- "The costs of bringing down inflation may prove to be markedly higher if upside risks materialize and high inflation becomes entrenched. In that event, central banks will have to be more resolute and tighten more aggressively to cool the economy, and unemployment will likely have to rise significantly."
- "Public support for tight monetary policy, now strong with inflation running at multi-decade highs, may be undermined by mounting economic and employment costs."
- "Even so, restoring price stability is of paramount importance, and is a necessary condition for sustained economic growth. A key lesson of the high inflation in the 1960s and 1970s was that moving too slowly to restrain it entails a much more costly subsequent tightening to re-anchor inflation expectations and restore policy credibility. It will be important for central banks to keep this experience firmly in their sights as they navigate the difficult road ahead."
  IMF, Report: Soaring Inflation Puts Central Banks on a Difficult Journey, 8/1/22

**Quote of the Week**
"Unless you try to do something beyond what you have mastered, you will never grow."
--- Ralph Waldo Emerson

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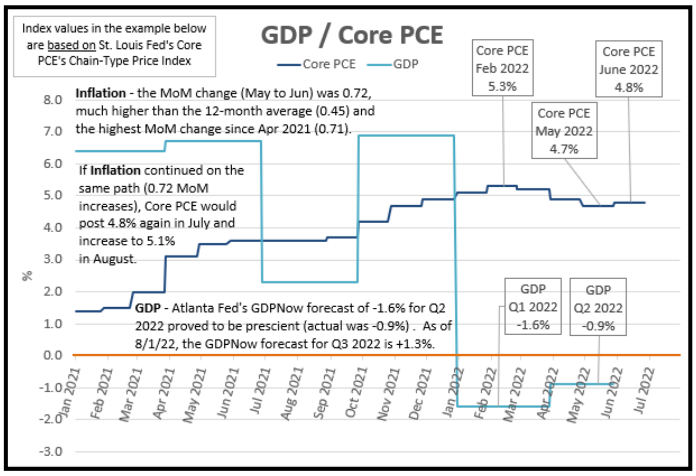
**Economic Indicators:**

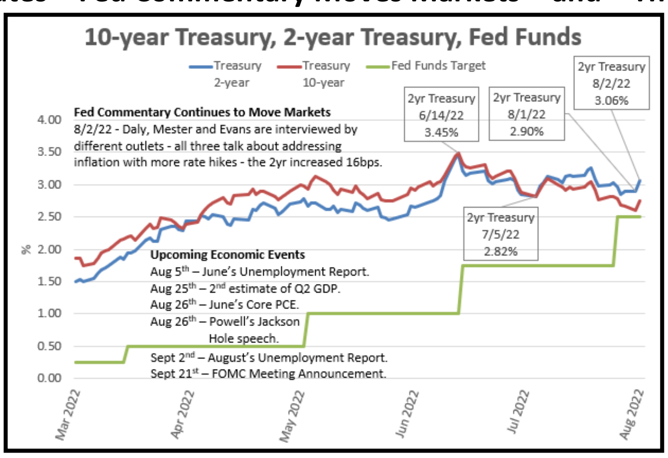
- GDP: -0.9% Q2 (Adv Est.) (Fed's Longer Run Rate 1.8%)
  - Q2 GDP (2nd Estimate) to be released 8/25/22.
- Core PCE: 4.8% June (Fed's Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for June: 4.34%.
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 2.69%.
    - Yield on Treasury minus yield on TIPS.
  - July's Core PCE will be released 8/26/22.
- Unemployment: 3.6% Jun (Fed's Long Run Rate: 4.0%)
  - July's unemployment #'s to be released Friday.
  - Median consensus is job growth of 250,000.
  - Capital Economics: "We forecast that non-farm payrolls rose by 250,000 in July *(vs. 372,000 in June)* which would represent a continuation of the slowdown in the labor market."

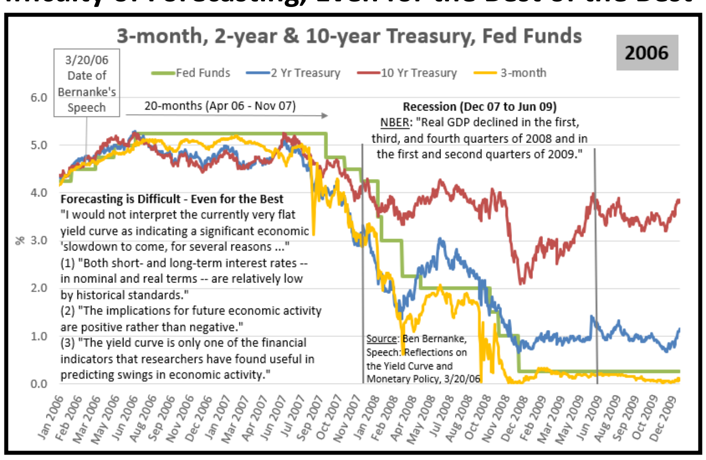



## Rates --- 10-Day Trends

| Key Interest Rates | 7/19/22 | 7/20/22 | 7/21/22 | 7/22/22 | 7/25/22 | 7/26/22 | 7/27/22 | 7/28/22 | 7/29/22 | 8/1/22 | 8/2/22 | 10-Day Average | 10-Day Avg vs 8/2/22 | 10-Day Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fed Funds Target Rate (FFTR) | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.13 | 0.38 | 0.75 |
| Standing Repo Facility (SRF) | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.13 | 0.38 | 0.75 |
| Interest on Reserve Balances (IORB) | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.03 | 0.38 | 0.75 |
| Effective Fed Funds Rate (EFFR) | 1.58 | 1.58 | 1.58 | 1.58 | 1.58 | 1.58 | 1.58 | 2.33 | 2.32 | 2.33 | 0.00 | 1.80 | 0.53 | 0.75 |
| Overnight Reverse Repo Facility (ON RRP) | 1.55 | 1.55 | 1.55 | 1.55 | 1.55 | 1.55 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 1.93 | 0.38 | 0.75 |
| Fed's Balance Sheet (Total Assets in Millions) | 8,895,867 | 8,899,213 | 8,899,213 | 8,899,213 | 8,899,213 | 8,899,213 | 8,890,004 | 8,890,004 | 8,890,004 | 8,890,004 | 8,890,004 | 8,894,723 | 4,719 | 5,863 |
| BSBY - Overnight | 1.576 | 1.580 | 1.581 | 1.583 | 1.590 | 1.580 | 1.579 | 1.579 | 1.731 | 2.248 | 2.340 | 1.739 | 0.601 | 0.761 |
| BSBY - 1-month | 1.996 | 2.022 | 2.058 | 2.122 | 2.131 | 2.173 | 2.215 | 2.256 | 2.301 | 2.322 | 2.328 | 2.193 | 0.136 | 0.306 |
| SOFR - Overnight | 1.540 | 1.530 | 1.530 | 1.520 | 1.530 | 1.530 | 1.530 | 2.280 | 2.270 | 2.280 | 0.000 | 1.754 | 0.526 | 0.740 |
| SOFR - 30-Day Average | 1.509 | 1.512 | 1.514 | 1.517 | 1.524 | 1.526 | 1.529 | 1.530 | 1.555 | 1.631 | 1.656 | 1.549 | 0.107 | 0.145 |
| SOFR - Term Rate - 1-Month (CME Term SOFR) | 2.153 | 2.180 | 2.257 | 2.285 | 2.286 | 2.322 | 2.327 | 2.307 | 2.285 | 2.285 | 2.285 | 2.282 | 0.003 | 0.105 |
| US Treasury - 3-Month | 2.52 | 2.51 | 2.48 | 2.49 | 2.62 | 2.55 | 2.44 | 2.42 | 2.41 | 2.56 | 2.56 | 2.50 | 0.06 | 0.05 |
| US Treasury - 2-Year | 3.23 | 3.25 | 3.07 | 2.98 | 3.00 | 3.02 | 2.96 | 2.85 | 2.89 | 2.90 | 3.06 | 3.00 | 0.06 | (0.19) |
| US Treasury - 10-Year | 3.01 | 3.04 | 2.91 | 2.77 | 2.81 | 2.81 | 2.78 | 2.68 | 2.67 | 2.60 | 2.75 | 2.78 | (0.03) | (0.29) |
| US Treasury - 20-Year | 3.42 | 3.43 | 3.33 | 3.23 | 3.28 | 3.27 | 3.26 | 3.23 | 3.20 | 3.12 | 3.22 | 3.26 | (0.04) | (0.21) |
| 3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) **(30yr historical avg: 1.68)** | 0.49 | 0.53 | 0.43 | 0.28 | 0.19 | 0.26 | 0.34 | 0.26 | 0.26 | 0.04 | 0.19 | 0.28 | (0.09) | (0.34) |
| 2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) **(30yr historical avg: 1.14)** | (0.22) | (0.21) | (0.16) | (0.21) | (0.19) | (0.21) | (0.18) | (0.17) | (0.22) | (0.30) | (0.31) | (0.22) | (0.09) | (0.10) |

## Rates – Fed Commentary Moves Markets – and – The Difficulty of Forecasting, Even for the Best of the Best




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

- Fed Board, Annual Report of the Board of Governors of the Federal Reserve System, 7/29/22
- St. Louis Fed, Report: Inflation and the Real Value of Debt, A Double-Edged Sword, 8/1/22
- NY Fed, Historically Low Delinquency Rates Coming to an End, 8/2/22