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Powell – Jackson Hole: Time to Restore Price Stability

- “Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.”
- Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy. Committee participants’ most recent individual projections from the June SEP showed the median federal funds rate running slightly below 4 percent through the end of 2023. Participants will update their projections at the September meeting.”

Source: Jerome Powell, Speech: Jackson Hole, Monetary Policy and Price Stability, 8/26/22

Fed Presidents – Interviews Before & After the Speech

- **Bullard:** Fed Funds by YE – 3.75% - 4.00%.
 - Bloomberg TV (8/26/22): “We have to get our rate up to the level that we’ll put downward pressure on inflation. I’ve said 3.75 to 4%. By the end of this year, I’d like to get to that level. And sooner is better, as far as I’m concerned.”
- **Mester** Fed Funds by YE – above 4.00%.
 - Bloomberg TV (8/26/22): “So, we’re going to have to move rates up. I mean, I think we’re going to have to move them up and this is based on just my current rate of the data above 4% and probably need to hold them there next year.”
- **Bostic:** Fed Funds by YE – 3.50% – 3.75%.
 - CNBC (8/26/22): “So for me, I think restrictive is somewhere in the 3.5 to 3.75 range. I’m hopeful we can get there by the end of the year ... we’re in a pandemic economy and we need to make sure that we don’t overreact,

and sort of miss apply our policies based on historical realities that don’t exist today.”

- **Harker:** Fed Funds by YE – 3.40%.
 - CNBC (8/25/22): “Well, I can only speak for myself. I’d like to see us get to say above 3.4. That was the last median in the SEP. And then maybe sit for a while. But if the data says we need to keep increasing, we keep increasing. We’ve got to get inflation under control. That is job one.”
- **George:** Fed Funds by YE – didn’t specify YE rate.
 - CNBC (8/25/22): “So, I think it’s too soon to say what should we expect in September because we have some important data that’s coming up.” (Jobs report 9/2/22; CPI’s report 9/13/22.)

FOMC – 75bps Looks to be On the Table

- Next FOMC meeting is September 20-21.
- We’ll see a new SEP & likely a higher YE rate forecast – if 3.75%-4.00% by YE – that could mean a 75bps rate hike in Sept and another 75bps hike before YE.

	Forecast	by YE22	Currently
	December -- 2021	0.90%	
Fed Funds:	March -- 2022	1.90%	
	June -- 2022	3.40%	2.50%

Inflation – A Substantial Drop (near term) is Possible

- “The current debate on whether the Federal Reserve can engineer a soft landing needs to disentangle the drivers of U.S. inflation. Our work shows that inflation in the U.S. would have been 6 percent instead of 9 percent at the end of 2021 without supply bottlenecks. Our quantitative results clarify why some pundits were wrong to predict a transitory surge in inflation, while others were right in predicting high inflation, but for the wrong reasons. Put differently, fiscal stimulus and other aggregate demand factors would not have driven inflation this high without the pandemic-related supply constraints. In the absence of any new energy or other shock, it is therefore possible that the ongoing easing of supply bottlenecks will cause a substantial drop in inflation in the near term.”

Source: NY Fed, Report: How Much Did Supply Constraints Boost U.S. Inflation? 8/24/22

Quote of the Week

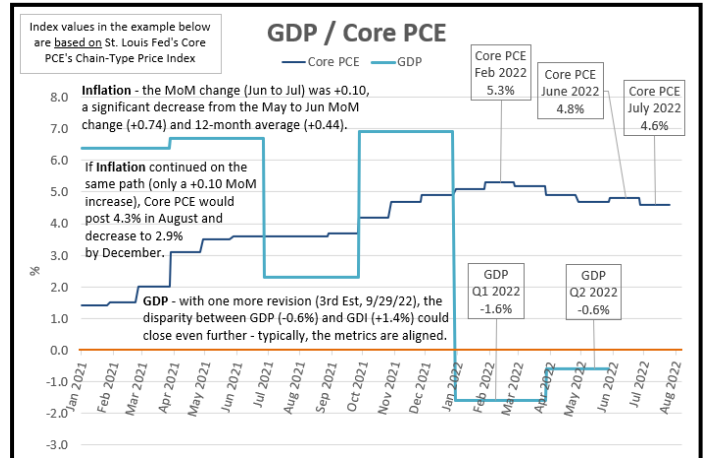
“The most difficult thing is the decision to act, the rest is merely tenacity.”
--- Amelia Earhart

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Economic Indicators:

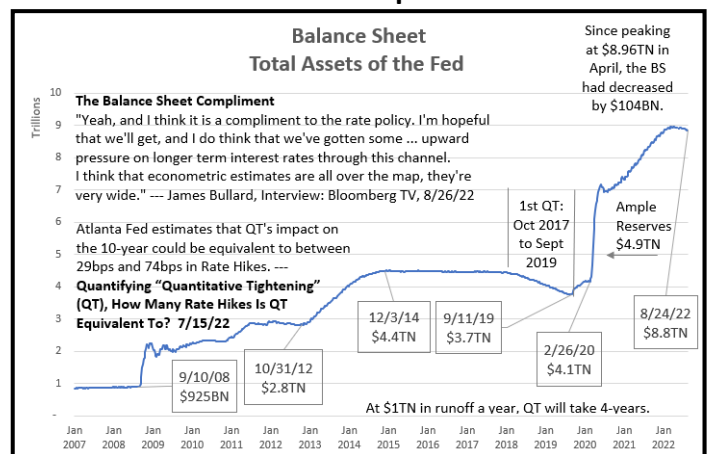
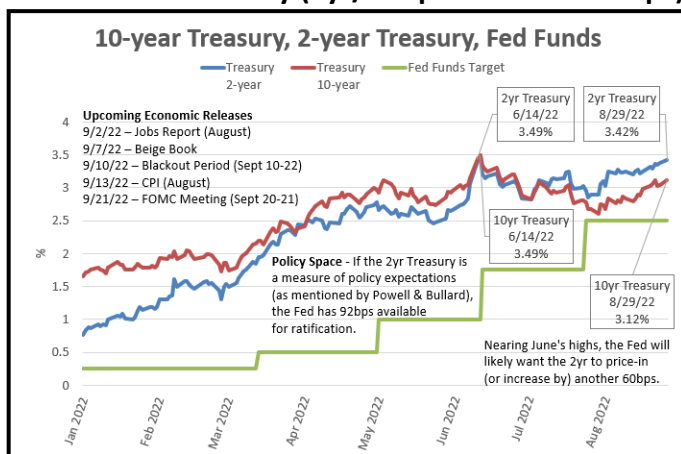
- GDP: -0.6% Q2 (2nd Est.) (Fed's Longer Run Rate 1.8%)
 - Q2 GDP (3rd Estimate) to be released 9/29/22.
 - Q3 GDPNow estimate is +1.6% (posted 8/26/22).
- Core PCE: 4.6% July (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for July: 4.40%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.71%.
 - Yield on Treasury minus yield on TIPS.
 - August's Core PCE will be released 9/30/22.
- Unemployment: 3.5% Jul (Fed's Long Run Rate: 4.0%)
 - Aug's unemployment #'s to be released Friday.
 - Median consensus is job growth of 300,000.



Rates --- 10-Day Trends

Key Interest Rates	7/26/22	7/27/22	7/28/22	7/29/22	8/1/22	8/2/22	8/3/22	8/4/22	8/5/22	8/8/22	8/29/22	10-Day Average	10-Day Avg vs 8/29/22	10-Day Change
Fed Funds Target Rate (FFTR)	1.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	0.00	0.00
Standing Repo Facility (SRF)	1.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	0.00	0.00
Interest on Reserve Balances (IORB)	1.65	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	0.00	0.00
Effective Fed Funds Rate (EFFR)	1.58	1.58	2.33	2.32	2.33	2.33	2.33	2.33	2.33	2.33	0.00	2.18	↑ 0.15	↑ 0.75
Overnight Reverse Repo Facility (ON RRP)	1.55	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,899,213	8,890,004	8,890,004	8,890,004	8,890,004	8,890,004	8,874,620	8,874,620	8,874,620	8,874,620	8,874,620	8,883,848	↑ 9,228	↓ 24,593
BSBY - Overnight	1.580	1.579	1.579	1.731	2.248	2.340	2.340	2.340	2.339	2.348	2.341	2.119	↑ 0.223	↑ 0.762
BSBY - 1-month	2.173	2.215	2.256	2.301	2.322	2.328	2.331	2.336	2.336	2.335	2.406	2.317	↑ 0.089	↑ 0.191
SOFR - Overnight	1.530	1.530	2.280	2.270	2.280	2.300	2.290	2.290	2.280	2.280	0.000	2.133	↑ 0.147	↑ 0.750
SOFR - 30-Day Average	1.526	1.529	1.530	1.555	1.631	1.656	1.682	1.708	1.733	1.808	2.283	1.711	↑ 0.572	↑ 0.755
SOFR - Term Rate - 1-Month (CME Term SOFR)	2.322	2.327	2.307	2.285	2.285	2.285	2.287	2.293	2.291	2.303	2.455	2.312	↑ 0.143	↑ 0.128
US Treasury - 3-Month	2.55	2.44	2.42	2.41	2.56	2.56	2.52	2.50	2.58	2.65	2.97	2.56	↑ 0.41	↑ 0.53
US Treasury - 2-Year	3.02	2.96	2.85	2.89	2.90	3.06	3.10	3.03	3.24	3.21	3.42	3.07	↑ 0.35	↑ 0.46
US Treasury - 10-Year	2.81	2.78	2.68	2.67	2.60	2.75	2.73	2.68	2.83	2.77	3.12	2.76	↑ 0.36	↑ 0.34
US Treasury - 20-Year	3.27	3.26	3.23	3.20	3.12	3.22	3.17	3.15	3.27	3.22	3.50	3.23	↑ 0.27	↑ 0.24
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	0.26	0.34	0.26	0.26	0.04	0.19	0.21	0.18	0.25	0.12	0.15	0.20	↓ (0.05)	↓ (0.19)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	(0.21)	(0.18)	(0.17)	(0.22)	(0.30)	(0.31)	(0.37)	(0.35)	(0.41)	(0.44)	(0.30)	(0.31)	↑ 0.01	↓ (0.12)

Rates – Room to Ratify (2yr/FF Spread is now 92bps) – and – The Balance Sheet Compliment



Interesting Reads that didn't make the Report:

- Fed Board, Report: Minutes of the FOMC July 26-27, 2022, 8/17/22
- St. Louis Fed, Report: Dating Economic Recessions in Real Time Is a Challenge, 8/18/22
- NY Fed, Report: Remote Work Is Sticking, 8/18/22

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