Fed Unfiltered

8/9/22

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Rate Hikes – Too Soon to Tell if 50bps or 75bps in Sept

- Daly (8/2/22): likely to "raise rates and hold them there for a while."
- Mester (8/2/22): with inflation so high, "we have more work to do."
- Evans (8/2/22): favors either 50bps or 75bps.
- Bullard (8/4/22): "I've argued that now, with the hotter inflation numbers in the spring, we should get to 3.75 to 4.00% this year."
  - With Fed Funds at 2.50%, two more 75bps hikes would put Fed Funds at 4.00%.
- Bowman (8/6/22): "My view is that similarly sized increases *(another 75bps)* should be on the table until we see inflation declining in a consistent, meaningful, and lasting way."

Barkin – How to Know When Inflation is Receding

- "I see inflation coming down in three lanes:"
  - "First, demand should flatten, reducing pricing pressure."
  - "Second, pandemic supply chain challenges should heal as pandemic pressures ease and companies adjust."
  - "And finally, there's the commodities lane, items like oil and wheat … we are seeing over the last two months, the dollar strengthening and gasoline and even the broader range of commodities dropping from peak pricing levels."
- "So there is a path to getting inflation under control. But a recession could happen in the process. If one does, we need to keep it in perspective: No one canceled the business cycle. We are out of balance today because stimulus-supported excess demand overwhelmed supply constrained by the pandemic and global commodity shocks. Returning to normal means products on shelves, restaurants fully staffed and cars at auto dealers. It doesn't have to require a calamitous decline in activity. Indeed, lower prices may create room for consumers to spend again. As for financial markets, they are not the economy. And baselines matter. Equities are down this year but still significantly up from pre-pandemic levels. We might soon have the same conversation about houses were prices to slip after two years of extraordinary gains."

  Source: Tom Barkin, Speech: Winning the War on Inflation, 8/3/22

YC – The 3M/10Y is a "Pretty Good Predictor"

- "We have argued that the 10Y3M bond spread is a pretty good predictor for the onset of a recession within a year and that including three alternative indicators does not significantly improve the prediction performance."
- "So, what are the readings as of July for the likelihood of a recession? Looking at the 10Y3M bond spread alone does not suggest a substantial risk of recession for the next year: The bond spread has not changed much over the last year, and even though the recession probability from its probit-model increased somewhat in July, it is still well below a reasonable critical value for a recession."
- "Nevertheless, the two alternative spreads have both declined recently, and the 10Y2Y spread is slightly negative as of July. Including these spreads into the baseline model does increase the probabilities for a recession, but for now they stay below their critical values."

  Source: Richmond Fed, Report: Recession Predictors, An Evaluation, 8/8/22

YC –The 2/10 Offers a "Particularly Muddled View"

- "It is not valid to interpret inverted term spreads as independent measures of impending recession. They largely reflect the expectations of market participants. Among various terms spreads to consider, the 2-10 spread offers a particularly muddled view. Especially in the present circumstances when the 2-10 spread is very much out of step with the near-term forward spread, which offers a much more precise view of market expectations over the next year and a half, it is difficult to concoct a reason to be concerned about the flattening of the 2-10 spread. In contrast, if and when the near-term spread does contract, we know that investors will then be expecting a cessation in monetary policy tightening. While such a shift in expectations could well be precipitated by future concerns about a recession, that need not be the case. A more benign cause would be a marked easing in inflation and inflation expectations that allow for a cessation of policy firming."

  Source: Fed Board, Report: (Don't Fear) The Yield Curve, Reprise, 3/25/22 (updated 8/5/22)

Quote of the Week

"Things work out best for those who make the best of how things work out." --- John Wooden

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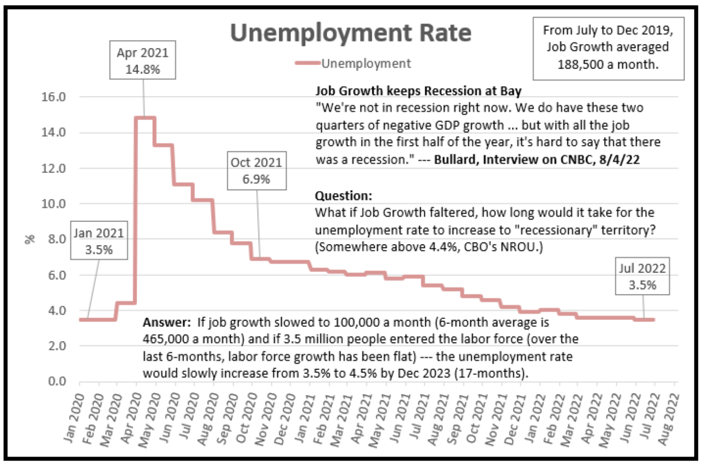
Economic Indicators:

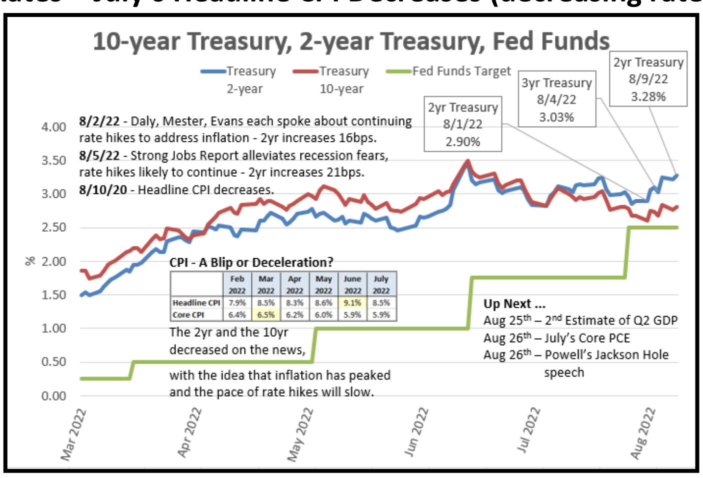
- GDP: -0.9% Q2 (Adv Est.) (Fed's Longer Run Rate 1.8%)
  - Q2 GDP (2nd Estimate) to be released 8/25/22.
  - Q3 GDPNow estimate is +1.4% (posted 8/4/22).
- Core PCE: 4.8% June (Fed's Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for June: 4.34%.
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 2.66%.
    - Yield on Treasury minus yield on TIPS.
  - July's Core PCE will be released 8/26/22.
- Unemployment: 3.5% Jul (Fed's Long Run Rate: 4.0%)
  - Aug's unemployment #'s to be released 9/2/22.
  - BLS: "Job growth was widespread, led by gains in leisure and hospitality, professional and business services, and health care."

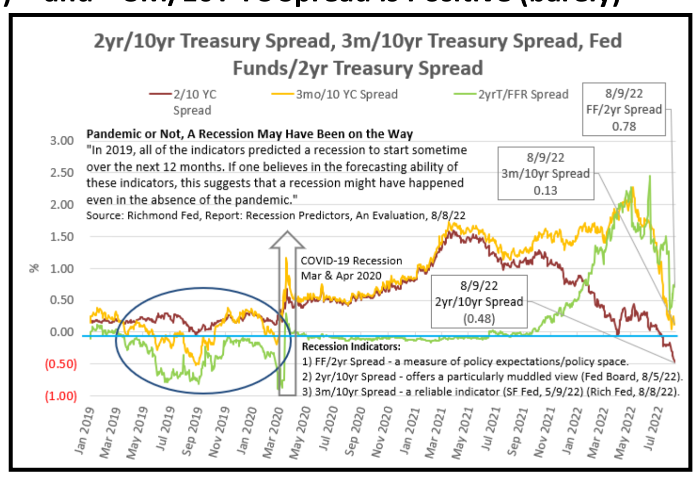


Rates --- 10-Day Trends

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	8/9/22	10-Day Average	10-Day Avg vs 8/9/22	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	2.337	2.118	0.219	0.758
BSBY - 1-month	2.173	2.215	2.256	2.301	2.322	2.328	2.331	2.336	2.336	2.335	2.339	2.310	0.029	0.124
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	1.833	1.666	0.166	0.304
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	2.312	2.298	0.014	(0.015)
US Treasury - 3-Month	2.55	2.44	2.42	2.41	2.56	2.56	2.52	2.50	2.58	2.65	2.67	2.53	0.14	0.23
US Treasury - 2-Year	3.02	2.96	2.85	2.89	2.90	3.06	3.10	3.03	3.24	3.21	3.28	3.05	0.23	0.32
US Treasury - 10-Year	2.81	2.78	2.68	2.67	2.60	2.75	2.73	2.68	2.83	2.77	2.80	2.73	0.07	0.02
US Treasury - 20-Year	3.27	3.26	3.23	3.20	3.12	3.22	3.17	3.15	3.27	3.22	3.24	3.21	0.03	(0.02)
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	0.13	0.20	(0.07)	(0.21)
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)	(0.48)	(0.32)	(0.16)	(0.30)

Rates – July's Headline CPI Decreases (decreasing rates) – and – 3M/10Y YC Spread is Positive (barely)





Interesting Reads that didn't make the Report:

- St. Louis Fed, Report: Did the Pandemic Hit Small Firms Harder than Large Firms? 8/4/22
- St. Louis Fed, Report: Ending Pandemic Unemployment Benefits Linked to Job Growth, 8/8/22
- SF Fed, Report: Will Workers Demand Cost of Living Adjustments? 8/8/22