Fed Unfiltered

WEEKLY REPORT 10/17/22

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Overview

FOMC – Core CPI's Hits New Peak in September

- Last week's Core CPI numbers pretty much sealed the deal on another 75bp hike in Nov (potentially the 4th in a row).
- Sept Core CPI increased to 6.6%, a new peak for 2022.

	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	June 2022	July 2022	Aug 2022	Sept 2022
Headline CPI	7.5%	7.9%	8.5%	8.3%	8.6%	9.1%	8.5%	8.3%	8.2%
Core CPI	6.0%	6.4%	6.5%	6.2%	6.0%	5.9%	5.9%	6.3%	6.6%
Core PCE	5.1%	5.3%	5.2%	4.9%	4.7%	4.8%	4.6%	4.9%	Out Oct 28

- On Friday, Bullard alluded to another large rate hike in Dec as well (see quote below). Baring any major economic event, we'll likely see 75bps in Nov & maybe 75bps in Dec.

Calendar

- The Fed's blackout begins on Saturday – expect a flurry of activity as the Fed attempts to set market expectations.

October	
10/19/2022	Biege Book, October 2022
10/22/2022	FOMC, Blackout Period, October 22 - November 3
10/27/2022	Gross Domestic Product, 3rd Quarter 2022 (Advance Estimate)
10/28/2022	Personal Income and Outlays, September 2022
November	
11/2/2022	FOMC Meeting, November 1-2
11/4/2022	Employment Situation - October 2022

Key Metrics

- GDP is next – Atlanta Fed's GDPNow Q3 estimate is 2.8%.

	Current	SEP Forecast for YE22	Target or Long Run	Next Release Date
GDP	-0.6	0.2	1.8	10/27/22
Core PCE	4.9	4.5	2.0	10/28/22
Fed Funds	3.25	4.4	2.5	11/2/22
Unemployment Rate	3.5	3.8	4.0	11/4/22

Speeches and Interviews

Bullard – Front Load in 2022 and Data Dependent in 2023

- Bullard said "if it was today, I'd go ahead with" a hike of the same magnitude in December, though he added it was "too early to prejudge" what to do at that final meeting of the year.
- "I do think 2023 should be a data-dependent sort of year. It's two-sided risk. It is very possible that the data would come in a way that forces the (Federal Open Market) Committee higher on the policy rate. But it's also possible that you get a good disinflationary dynamic going, and in that situation the committee could keep the policy rate and hold it steady,"

James Bullard, Interview: Reuters (print), 10/14/22

Mester – There are Larger Risks from Tightening too Little.

- "Given the current level of inflation, its broad-based nature, and its persistence, I believe monetary policy will need to become more restrictive in order to put inflation on a sustainable downward path to 2 percent. Given appropriately restrictive financial conditions, my modal outlook is that inflation will move down appreciably next year, to about 3-1/2 percent, and continue to decline, reaching our 2 percent goal in 2025. I anticipate that the return to price stability will entail a period of output growth that is well below trend over the next two years. This below-trend growth will lead to slower employment growth, with the unemployment rate moving up to 4-1/2 percent by the end of next year and up a bit more in 2024. We are likely to experience higher-than-normal levels of financial market volatility as well."
- "Monetary policy acts with a lag on the economy so we need to be forward looking. It is unlikely that we have seen the full effects on households and businesses of the latest rate increases we have implemented and it would not be appropriate to continue moving rates up until inflation is back down to 2 percent. But it is also the case that based on Fed communications, financial conditions began to tighten well before our first rate increase in March and those effects have been passing through to the economy. Yet high inflation persists, an indication that we need to increase rates further."
- "As is always the case when we are transitioning monetary policy, we will need to continue to weigh the risks of tightening too much against the risks of tightening too little. Given current economic conditions and the outlook, in my view, at this point the larger risks come from tightening too little and allowing very high inflation to persist and become embedded in the economy."

Loretta Mester Speech: An Update on the Economy and Monetary Policy, Perseverance in Returning to Price Stability, 10/11/22

Evans – To 4.50% or 4.75% and then Pause & Assess

- "I see the nominal funds rate rising to a bit above 4-1/2 percent early next year and then remaining at this level for some time while we assess how our policy adjustments are affecting the economy."

Charles Evans, Speech: Going the Distance on Inflation Redux, 10/10/22

Reports

Monetary Policy – Hindsight is 20/20, Kind Of

- "If the Federal Reserve had known about the upcoming inflation surge in early 2021 and had acted immediately to combat it, how different would the economy be today? Perhaps surprisingly, my analysis in this Letter suggests that it may have been preferable to only moderately raise the federal funds rate during 2021, such that inflation would be only about 1 percentage point lower now, and unemployment would stand around 6%, about 2 percentage points higher. The reason for this moderate policy reaction is rooted in the Fed's dual mandate, such that any monetary policy aimed at containing inflation typically will take into account the response of unemployment."
- "An important lesson of this exercise is that, even with perfect foresight, the Fed may have weighed the possible outcomes and may have chosen not to eliminate all of the rise in inflation. The reason is that higher rates to combat inflation also generate higher unemployment, creating a tension between the two goals in the dual mandate. When such tensions arise, the Fed takes into account the misses from its dual objectives when setting policy. If the Fed had no unemployment mandate and only focused on inflation, it could have kept inflation low, but at the cost of an unemployment rate climbing above 10%."

SF Fed, Report: What If? Monetary Policy in Hindsight, 10/11/22

Trends

Rates were up last week, primarily due to the Core CPI's increase & new peak, which means aggressive rate hikes will continue. The 3m/10yr YC spread is compressing, but still positive.

Key Interest Rates	10/7/22	10/11/22	10/12/22	10/13/22	10/14/22	5-Day Change
Fed Funds Target Rate (FFTR)	3.25	3.25	3.25	3.25	3.25	0.00
BSBY - Overnight	3.099	3.102	3.100	3.102	3.098	(0.001)
BSBY - 1-month	3.154	3.162	3.176	3.218	3.252	0.098
SOFR - Overnight	3.050	3.050	3.040	3.040	0.000	(0.010)
SOFR - 30-Day Average	2.637	2.740	2.766	2.791	2.817	0.179
SOFR - Term Rate - 1-Month	3.274	3.289	3.302	2.376	3.416	0.142
US Treasury - 3-Month	3.45	3.67	3.70	3.79	3.81	0.36
US Treasury - 2-Year	4.30	4.30	4.28	4.47	4.48	0.18
US Treasury - 10-Year	3.89	3.93	3.91	3.97	4.00	0.11
US Treasury - 20-Year	4.13	4.19	4.18	4.25	4.26	0.13
YC Spread - 3-Month / 10-year Treasury	0.44	0.26	0.21	0.18	0.19	(0.25)
YC Spread - 2-Year / 10-year Treasury	(0.41)	(0.37)	(0.37)	(0.50)	(0.48)	(0.07)

Quote of the Week

"It's not the years in your life that count.
It's the life in your years."
--- Abraham Lincoln