Fed Unfiltered

WEEKLY REPORT 10/24/22

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Overview

FOMC – Daly's Comments Clarified & Another 75bps in Nov

- Seven Fed officials spoke last week – On Friday Mary Daly made the biggest splash with the most direct comment about slowing rate hikes – the "step down" – which isn't quite as bad when the entirety of her comments are viewed (see below) – Daly still supports a 75bp hike in November.
- Over the last week in speeches or interviews, 4 of the 19 Fed officials offered their individual forecast for Fed Funds.
  - Mary Daly – 4.50% to 5.00% in 2023 (as of 10/21/22).
  - Charles Evans – "a bit above 4.50% (as of 10/21/22).
  - Patrick Harker – "well above 4.00%" (as of 10/20/22).
  - Neel Kashkari – 4.50% to 4.75% (as of 10/18/22).
  - Sept SEP forecast for FF at YE is 4.4%; 4.6% in 2023.
- Nov's FOMC – Fed officials appear to be unified on 75bps.
- Dec's FOMC – (and the run up to) might be the beginning of the Dove/Hawk debate about when to pause rates, at what level and for how long – so inflation is addressed and growth isn't hampered – Sept's SEP has rate cuts starting in 2024.

Calendar

- The Fed's Blackout Period began Saturday, which limits Fed communication until the day after the FOMC (Nov 3rd).

October	
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
11/10/2022	Consumer Price Index, October 2022
11/23/2022	FOMC - Minutes of the FOMC, November 1-2, 2022

Key Metrics

- GDP – Atlanta Fed's GDPNow Q3 estimate is 2.9% -- the median consensus amongst economic forecasters is 2.0%.
- Core PCE – if the above average MoM increase in August (0.69) continued in September, Core PCE would increase to from 4.9% to 5.3% -- if the MoM increase resembled July's miniscule 0.05, Core PCE would decrease from 4.9% to 4.7%.

	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

Daly – 75bps is Probably Not on the Table for December

- Step Down: "This is why you're starting to hear, and I've said this myself, the idea that we don't just keep going up at 75 basis point increments. We actually do a step down, and that doesn't mean step down as in pause and don't raise. It means step down into increments that are easier to manage 50, 25 basis points where you're still moving up but you're doing it in a way that's not so aggressive that you don't have to find yourself in the awkward position (of overtightening)."

  Rate Forecast: "And so then from my perspective, I think getting next year to something between four and a half and five is still a very reasonable estimate of where we'll need to go. But I say that with a double and triple underline that the key and core value of a central banker in this mode in my prudent policy is data dependence, really being data dependent, really thoughtful. Because there's much concern of under-doing and over-doing."

  Mary Daly, Interview: UC Berkeley's Fisher Center for Real Estate and Urban Economics, 10/21/22

Bullard – 75bps is Definitely on the Table for December

- "The November meeting has been more or less priced into the market at the 75-basis point number … the December meeting is a little farther away, we'll have more data at that point. I don't want to prejudge exactly what I'd support at that meeting."

  James Bullard, Interview: Bloomberg TV, 10/19/22
- "If it was today, I'd go ahead with" a hike of the same magnitude in Dec (75bps), adding that it was "too early to prejudge" what to do at that final meeting of the year.

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

Reports

Inflation – A Strong Dollar Lowers Demand, Lowers Costs

- "The U.S. dollar appreciates when demand for the currency rises relative to demand for other currencies. This might happen in times of weaker growth prospects outside of the U.S. or in times of increased global uncertainty, as U.S. government assets benefit from being perceived as a safe haven. To buy Treasury bills, notes and bonds, foreign investors accumulate dollars, pushing up the dollar's price (that is, the exchange rate)."
- "A stronger dollar might help the FOMC achieve its inflation goals in two ways. By making U.S. goods more expensive and subsequently cooling foreign demand for them, a stronger dollar may ease pressure on supply-chain constrained factories that are having difficulties keeping up with the pace of new orders."
- "The stronger U.S. dollar also makes imports cheaper, which contributes to lowering consumer price inflation both by lowering the cost of imported final goods and by lowering costs for imported intermediate goods (assuming producers pass on those cost savings to consumers)."

  Richmond Fed, Report: Appreciating Dollar Appreciation, 10/18/22

Jobs –Participation is Still the Key to the Tight Labor Market

- "To conclude, relative to pre-pandemic trends, labor demand remains robust even as labor supply remains impaired. Even if the labor force participation rates of different age groups were to return to pre-pandemic levels, the aging of the population would still weigh on the aggregate labor force participation rate. However, I show that most of the weakness in the aggregate labor force participation rate is due to a lower participation rate among older individuals who may not return to the labor force, suggesting that labor supply will likely remain below pre-pandemic levels. Therefore, the labor market may remain tight until labor demand cools further."

  KC Fed, Report: Labor Market May Remain Tight until Labor Demand Cools Further, 10/21/22

Trends

Rates were up across the board last week – The 3m/10yr YC inverted on Tuesday (possibly due to worries about liquidity, driving up short-term treasuries), but moved positive after the 3-month steadied and the 10yr increased – Mary Daly's comments on Friday ("step down") took a toll on the 2yr (a 13bps decrease).

Key Interest Rates	10/17/22	10/18/22	10/19/22	10/20/22	10/21/22	5-Day Change
Fed Funds Target Rate (FFTR)	3.25	3.25	3.25	3.25	3.25	0.00
BSBY - Overnight	3.104	3.099	3.101	3.103	3.103	0.000
BSBY - 1-month	3.282	3.288	3.325	3.377	3.437	0.155
SOFR - Overnight	3.050	3.040	3.040	3.030	0.000	(0.020)
SOFR - 30-Day Average	2.894	2.920	2.945	2.971	2.997	0.103
SOFR - Term Rate - 1-Month	3.467	3.476	3.490	3.578	3.598	0.131
US Treasury - 3-Month	3.97	4.04	4.07	4.09	4.09	0.12
US Treasury - 2-Year	4.45	4.43	4.55	4.62	4.49	0.04
US Treasury - 10-Year	4.02	4.01	4.14	4.24	4.21	0.19
US Treasury - 20-Year	4.29	4.27	4.38	4.47	4.54	0.25
YC Spread - 3-Month / 10-year Treasury	0.05	-0.03	0.07	0.15	0.12	0.07
YC Spread - 2-Year / 10-year Treasury	(0.43)	(0.42)	(0.41)	(0.38)	(0.28)	0.15

Quote of the Week

"The harder I work, the luckier I get."

--- Gary Player