

## Overview

**FOMC – 75bps in Nov, 50bps in Dec to 25bps on Feb 1<sup>st</sup>**  
A 50bp hike Wed, then at the press conference Powell set the stage for another step down in Feb (see below).

### Summary of Economic Projections (aka Fed Forecasts)

The Fed 2023 forecasts were updated last week (December SEP) – the biggest change was GDP – the Fed now expects growth to slow to 0.5% (previous forecast for 2023 was 1.2%, currently GDP is 2.9%). The forecast for Fed Funds increased to 5.10% (from September’s forecast of 4.6%) – rate hikes are expected the first two meetings of the year (Feb 1<sup>st</sup> and Mar 22<sup>nd</sup>).

	Current	Fed Forecast for YE23	Fed Target or Long Run	Next Release Date
GDP	2.9	0.5	1.8	12/22/22
Core PCE	5.0	3.5	2.0	12/23/22
Unemployment Rate	3.7	4.6	4.0	1/6/23
Fed Funds (FOMC)	4.50	5.10	2.50	2/1/23

### Calendar

Two releases this week and then nothing until after New Year’s – no change expected of GDP’s 3<sup>rd</sup> estimate – November’s PCE numbers are expected to continue decreasing – Sept’s core was 5.2%, Oct was 5.0%.

December	
12/22/2022	Gross Domestic Product, 3rd Quarter 2022 (Third Estimate)
12/23/2022	Personal Income and Outlays, November 2022
January --- 2023	
1/4/2023	FOMC - Minutes of the FOMC, December 13-14, 2022
1/6/2023	Employment Situation - December 2022
1/12/2023	Consumer Price Index, December 2022

## Speeches and Interviews

### Williams – Fed Funds as High as 5.5% in 2023 (12/16/22)

- “Well, I think we’re well on our way there, and I think when you look at the central tendency of the dots, my colleagues expect the Fed funds rate to get to, say, 5% to 5.5% next year. I think that gets us into that hopefully sufficiently restrictive stance of policy that will bring inflation back to 2%.”

### Daly – Unemployment 4.5% or Higher in 2023 (12/16/22)

- “We’re going to have to go into the mid-fours or even slightly higher on unemployment to get the sort of relief in the labor market we need to bring things back in balance. The final thing I’ll say about that is wage growth right now is four and a half to five depending on which series you’re looking at and what sector you’re looking at, and really we need it to be three and a half to four if we’re going to be in that sustainable place.”

### Daly – GDP Below Trend and Sluggish in 2023 (12/16/22)

- “I expect a slowdown, the growth to be well below our trend rate. That’s going to feel like slow growth to people ... feel like we’re in a sluggish economy, though I absolutely anticipate that.”

### Powell – Next Hike, a Step Down to 25bps (12/14/22)

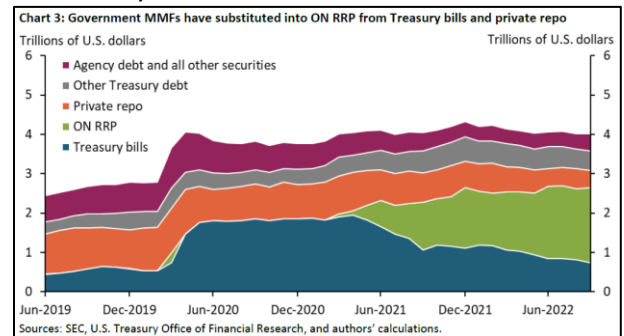
- “But, you know, what you said is broadly right, which is having moved so quickly and having now so much restraint that’s still in the

pipeline, we think that the appropriate thing to do now is to move to a slower pace (25bps) ... that will allow us to feel our way and ... better balance the risks that we face.”

## Reports

### Balance Sheet – Shift to ON RRP is a Challenge for Fed

- “Aggressive policy tightening also increased uncertainty about the pace of tightening and the terminal rate. ON RRP (Fed’s Overnight Reverse Repo Facility, an alternative investment for money market investors) access shields counterparties from interest rate risk, which is critical when policy uncertainty is elevated.”



- “The current situation of declining reserves and rising ON RRP usage presents a challenge to the FOMC’s objective to shrink the Federal Reserve’s balance sheet. With reserves currently declining faster than assets, reserves could decline to a level consistent with an ample reserves regime without significant reductions in the balance sheet.”

KC Fed, Report: Is Bank Capital Regulation Driving Continued Use of the Overnight Reverse Repurchase (ON RRP) Facility? 12/16/22

## Trends

Last week, the November CPI report stole the show with a decrease to 6.0% (core CPI, from the previous month’s 6.3%) – had inflation peaked? – would fewer rates be needed? – optimistically, the market’s thought so and the 2yr fell 17bps – the next day, the Fed quashed the idea with a 50bps hike and another 50-75bps on the way – although the Fed is emphatic about future rate hikes, there’s a growing sentiment in the market that the Fed is only talking tough and that once inflation recedes the rate cuts will begin – possibly as soon as late 2023 – the Fed’s Dec SEP has the first rate cut sometime in 2024.

Key Interest Rates	12/12/22	12/13/22	12/14/22	12/15/22	12/16/22	5-Day Change
Fed Funds Target Rate (FFTR)	4.00	4.00	4.50	4.50	4.50	↑ 0.50
BSBY - Overnight	3.873	3.868	3.865	3.869	3.976	↑ 0.103
BSBY - 1-month	4.149	4.181	4.201	4.242	4.264	↑ 0.115
SOFR - Overnight	3.800	3.800	3.800	4.320	0.000	↑ 0.520
SOFR - 30-Day Average	3.807	3.807	3.808	3.808	3.826	↑ 0.019
SOFR - Term Rate - 1-Month	4.317	4.336	4.326	4.325	4.321	↑ 0.004
US Treasury - 3-Month	4.38	4.35	4.33	4.34	4.31	↓ (0.07)
US Treasury - 2-Year	4.39	4.22	4.23	4.23	4.17	↓ (0.22)
US Treasury - 10-Year	3.61	3.51	3.49	3.44	3.48	↓ (0.13)
US Treasury - 20-Year	3.84	3.74	3.74	3.69	3.73	↓ (0.11)
YC Spread - 3-Month / 10-year Treasury	(0.77)	(0.84)	(0.84)	(0.90)	(0.83)	↓ (0.06)
YC Spread - 2-Year / 10-year Treasury	(0.78)	(0.71)	(0.74)	(0.79)	(0.69)	↑ 0.09

## Quote of the Week

"No man steps in the same river twice, for it is not the same river and he is not the same man." --- Heraclitus (Greek philosopher)

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