

Overview & SEP

Next FOMC is Feb 1st 25 & 50bps are on the table

	Current	Fed Forecast for YE23	Fed Target or Long Run	Next Release Date
GDP	3.2	0.5	1.8	1/26/23
Core PCE	4.7	3.5	2.0	1/27/23
Fed Funds (FOMC)	4.50	5.10	2.50	2/1/23
Unemployment Rate	3.5	4.6	4.0	2/3/23
Core CPI	5.7	n/a	n/a	2/14/23

Overview - Over the next four days of this holiday shortened week, Fed officials are likely to clarify their position on the upcoming rate hike - both 25bps and 50bps are on the table.

For most Fed officials, the level of the upcoming rate hike will likely be decided after Q4 GDP and December's PCE numbers post (which will be after the blackout begins). Of the two metrics, the Fed will be more concerned with PCE and will expect a decline similar to CPI's earlier this month. Core CPI fell from 6.0% in November to 5.7% in December.

If PCE doesn't fall by a similar amount or more, a 50bps rate hike is most likely.

GDP - With 425bps of rate hikes over the last 12-months and another 50-75bps in rate hikes possibly on the way, the Fed is forecasting growth to slow by YE 2023 to 0.5% - according to December's Summary of Economic Projections.

The next major economic release will be advance estimate of Q4 2022 GDP, next week. Currently 3.2% (Q3 2022) and according to the Atlanta Fed's GDP Now estimate, the Q4 2022 GDP numbers will post even higher (4.1%).

This above trend growth might turn negative the first half of 2023, according to the forecasts of some economic analysts. Such a dramatic turn would be a familiar circumstance. In Q3 and Q4 2021 GDP was 2.3% and 6.9% respectively and then in Q1 and Q2 2022, GDP fell to negative 1.6% and negative 0.6%, respectively.

NBER didn't declare a recession the first half of 2022, citing other positive factors.

Calendar

The Beige Book Publishes on Wednesday

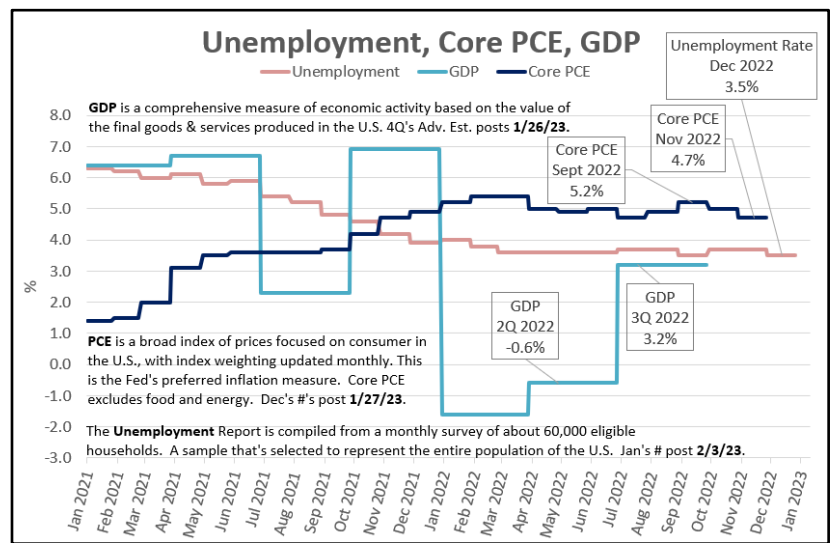
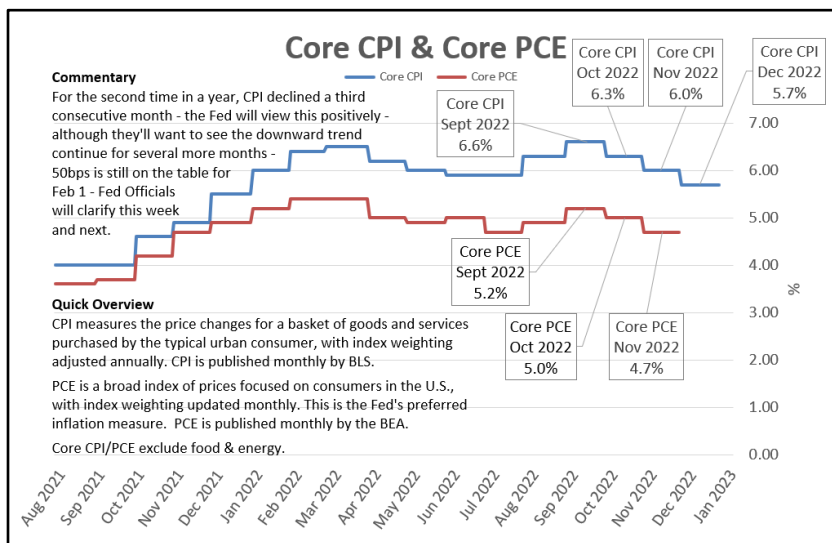
This week, the major economic release will be The Beige Book on Wednesday.

The Beige book is published eight times a year (two weeks prior to each FOMC meeting) and summarizes current economic conditions by District and by sector.

On Saturday, the Fed's communication blackout begins. Expect a flurry of activity from Fed officials in an effort to provide "forward guidance" for the upcoming hike.

January	
1/18/2023	Beige Book - January 2023
1/21/2023	FOMC - Blackout Period, January 21 - February 2
1/26/2023	Gross Domestic Product, 4th Quarter 2022 (Advance Estimate)
1/27/2023	Personal Income and Outlays - December 2022
1/31/2023	FOMC Meeting, January 31 - February 1
February	
2/3/2023	Employment Situation - January 2023
2/14/2023	Consumer Price Index - January 2023
2/23/2023	Gross Domestic Product, 4th Quarter 2022 (Second Estimate)
2/22/2023	FOMC - Minutes of the FOMC, Jan/Feb 1-2, 2023
2/24/2023	Personal Income and Outlays - January 2023

Next Week: GDP (Q422) and Dec's PCE will post.



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Trends

CPI report and commentary moved rates

For the week: the 2yr was up 3bps, 10yr was down 4bps

Rates were static last week until Thursday's CPI report and James Bullard's comments at the Wisconsin Banker's Association, which became widely available on Friday.

CPI declined for the third consecutive month. Core CPI has slowly fallen from 6.3% in Oct to 6.0% in Nov to 5.7% in Dec. Now that inflation is abating, an optimistic market sees rate hikes easing and rate cuts on the way - maybe as soon at Q4 2023. Following suit, lower rates were priced in and the 2-year Treasury decreased 8bps.

Bullard then spoke about increasing rates to 5.00% saying "it would be appropriate to get there as soon as possible." As

the 15-year President of the St. Louis Fed and an influential member of the FOMC, the market responded and priced in higher rates - the 2-year increased 10bps.

Key Interest Rates	1/9/23	1/10/23	1/11/23	1/12/23	1/13/23	5-Day Average	5-Day Change
Fed Funds Target Rate (FFTR)	4.50	4.50	4.50	4.50	4.50	4.50	0.00
BSBY - 1-month	4.357	4.364	4.376	4.390	4.395	4.377	↑ 0.038
SOFR - Term Rate - 1-Month	4.430	4.430	4.434	4.478	4.483	4.451	↑ 0.053
US Treasury - 3-Month	4.70	4.73	4.72	4.66	4.67	4.70	↓ (0.03)
US Treasury - 2-Year	4.19	4.24	4.20	4.12	4.22	4.19	↓ 0.03
US Treasury - 10-Year	3.53	3.61	3.54	3.43	3.49	3.52	↓ (0.04)
YC Spread - 3-Month / 10-year Treasury	(1.17)	(1.12)	(1.18)	(1.23)	(1.18)	(1.18)	↓ (0.01)
YC Spread - 2-Year / 10-year Treasury	(0.66)	(0.63)	(0.66)	(0.69)	(0.73)	(0.67)	↓ (0.07)