

Quick Overview

- 25bps still most likely, although 50bps on the table.
- Terminal rate is 5.25%, might be moving to 5.50%.
- Rate cuts are forecasted for 2024 (not for 2023).

Fed Funds

Amidst all the uncertainty, one thing is certain – the Fed Funds rate is going up. A few weeks ago, Jerome Powell mentioned how the disinflationary process (increasing rates to lower inflation) is “probably going to be bumpy”.

Since that comment was made:

- January’s CPI posted a fourth consecutive monthly decrease, although just barely (January’s CPI decreased to 5.6%, from December’s 5.7%).
- January’s Core PCE reversed the 3-month trend and increased to 4.7% (from December’s 4.6%).

Plus:

- The Dallas Fed trimmed mean has barely budged since August 2022, posting 4.63% in January while the last three months were revised upward.
 - [Barkin](#) (1/17/23): “I want to see inflation and median and trimmed mean, compellingly headed back to our two percent target.”
- The 5-year breakeven moved from 2.09% in mid-January to a high of 2.58% last week, although settled at 2.47% on Friday.
 - [Williams](#) (11/9/22): “A reasonable and oft-used benchmark of longer-run inflation expectations is to look at inflation five or more years in the future.”
- And, the Jan 31/Feb 1 FOMC minutes mentioned that “a few participants” were in favor of raising the rates by 50bps on Feb 1 (instead of 25bps).

With two weeks to go before the blackout, expect Fed Officials to continue to clarify the upcoming rate hike and terminal rate – the majority still sit at 25bps/5.25%, although 50bps/5.50% is now on the table.

No major economic releases this week.

March	
3/8/2023	The Beige Book - March 2023
3/10/2023	Employment Situation - February 2023
3/11/2023	FOMC - Blackout Period, March 11 - March 23
3/14/2023	Consumer Price Index - February 2023
3/21/2023	FOMC Meeting, March 21-22
3/22/2022	FOMC - Summary of Economic Projects (SEP) - March 2023

- [Jerome Powell, Interview: The Economic Club of Washington D.C.](#) 2/7/23
- [BLS, Report: Consumer Price Index – January 2023](#) 2/14/23
- [BEA, Report: Personal Income and Outlays, January 2023](#) 2/24/23
- [Tom Barkin, Interview: Fox Business](#) 1/17/23
- [John Williams, Speech: A Steady Anchor in a Stormy Sea](#) 11/9/22

Next FOMC - March 21-22 - 25bps or 50bps?

Last week’s FOMC meeting minutes offered a view into the Fed’s discussion about level of rate hikes. Although “almost all participants agreed” to a 25bps hike:

- “A few participants stated that they favored raising the target range for the federal funds rate 50 basis points at this meeting or that they could have

supported raising the target by that amount. The participants favoring a 50-basis point increase noted that a larger increase would more quickly bring the target range close to the levels they believed would achieve a sufficiently restrictive stance, taking into account their views of the risks to achieving price stability in a timely way.”

Those “few” were likely:

- [Bullard](#) – on record favoring a 5.38% terminal rate.
- [Mester](#) – who mentioned on 2/16/23, “I saw a compelling economic case (at the Jan 31/Feb 1 FOMC) for a 50-basis-point increase.”
- [Kashkari](#) – on record favoring a 5.40% terminal rate.

[Fed Board, Report: Minutes of the FOMC, January 31 – February 1](#) 2/22/22

Terminal Rate & Pause

Although the terminal rate is currently 5.25% (based on the majority of comments from Fed Officials and the December SEP’s median 5.10%), recent inflation data will be influential:

- [Bullard](#) (2/22/23): “let’s get to where we want to go, and then from there we can see how the data come in. Let’s hope that we get disinflation in 2023.”

Regarding the pause:

- [Mester](#) (2/24/23): “I do think we have to be somewhat above 5% and hold there for a time.”
- [Collins](#) (2/24/23): “I anticipate further rate increases to reach a sufficiently restrictive level, and then holding there for some, perhaps extended, time.”

[James Bullard, Interview: CNBC](#) 2/22/23

[Loretta Mester, Interview: CNBC \(print only, excerpts below\)](#) 2/24/23

[Susan M. Collins, Speech: Why Did We Miscalc Inflation?](#) 2/24/23

Rate Cuts

The Fed is forecasting rate cuts in 2024 (not in 2023).

The December SEP forecasts 100bps of rate cuts in 2024.

December SEP	Current	Fed Forecast YE 2023	Fed Forecast YE 2024	Fed Forecast Longer Run	Next Release Date
Unemployment Rate	3.4	4.6	4.6	4.0	3/10/23
Core CPI	5.6	n/a	n/a	n/a	3/14/23
Fed Funds (FOMC)	4.75	5.10	4.10	2.50	3/22/23
GDP	2.7	0.5	1.6	1.8	3/30/23
Core PCE	4.7	3.5	2.5	2.0	3/31/23

[Fed Board, Report: FOMC Summary of Economic Projections \(SEP\) – December 2022](#) 12/14/22

Economy

On 2/15/23, the CBO published 2023 forecasts:

- Interest Rates: 10-year Treasury – 3.8% thru 2024.
 - As of 2/24/23, the 10yr was 3.95%.
- Inflation: forecast to fall to about 3.0% in 2024.
- GDP: forecast to decrease to about 1.0% in 2024.
- Jobs: forecast to increase to about 5.0% in 2024.

[CBO, Report: The Budget and Economic Outlook for 2023 to 2033](#) 2/15/23

“What you get by achieving your goals is not as important as what you become by achieving your goals.”
— Johann Wolfgang von Goethe

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