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Research



Fed Watcher: Solid jobs data solidify case for 75 in July

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DB Fed Watcher: Solid jobs data solidify case for 75 in July



Summary: Solid June jobs report reinforced Fed officials' desire for another super-sized hike in July

DB View: 75bps hike in July, a 50bps hike pace thereafter until downshifted to 25bps in December. 4.1% terminal rate reached in 2023Q1. Moderate recession and rate cuts in 2023H2.

Fedspeak

Who**	Takeaways	Bias*
FOMC minutes (07/06)	<ul style="list-style-type: none"> Outlook warranted a restrictive policy stance. An "even more restrictive" stance possible if elevated inflation pressures were to persist Elevated uncertainty about economic growth outlook. GDP and GDI sending conflicting signals Many saw "significant risk" of entrenched inflation Many concerned that long-run inflation expectations could become unanchored, making return of inflation to target more "costly" 	↑
Bostic [4] (07/08, 11)	<ul style="list-style-type: none"> 'Fully supportive' of July 75bps. See 'minor signs' of slowing economy. No sign of 'pretty significant' downturn Open to 100bps moves if inflation came in 'a lot worse' than expected First objective to get rates to more neutral posture. Neutral est. ~3% See signs of supply-chain healing 	↑
George [5] (07/11)	<ul style="list-style-type: none"> Pace of rate hikes can affect B/S runoff. Two tools need to balance Sympathetic to the view that rates need to rise rapidly Unclear how high rates need to go to bring inflation down Moving rates too quickly could oversteer Recession discussions "remarkable" post 4 months of hikes 	↓

Fedspeak, continued

Who**	Takeaways	Bias*
Waller [4] (07/07)	<ul style="list-style-type: none"> 75bps in July, probably 50bps in Sept, debate over 25bps after that To slow/stop rate rises, need to core PCE inflation close to 2.5%-3% Need to see monthly core inflation around 0.2%. Dead set on inflation fight. Might have to risk causing some economic damage Recession fears overblown. 'Good shot' at soft landing Unusual to see weak GDP and strong hiring. GDI likely gauges activity better "Not a chance" of 3% inflation target 	→
Williams [2] (06/28, 07/08)	<ul style="list-style-type: none"> 50-75bps hike in July up for debate. 3.5%-4% 'reasonable for next year', 3-3.5% in '22. Bumpy road ahead Inflation "sky-high" now and a top threat to the economy Growth below 1% in '22, ~1.5% in '23 UR somewhat above 4% in '23 	↑
Mester [4] (06/29)	<ul style="list-style-type: none"> Supports 75bps July hike, expeditious march to 3-3.5%, rates 4+% next year High prices clouding confidence Growth a bit below trend in 2022. Not expecting recession Inflation can rise further, labor market 'incredibly tight', no wage-price spiral Michigan survey wasn't precipitating event for hike Questions the old view of looking through supply shocks 	→

Fedspeak, continued

Who**	Takeaways	Bias*
Bullard [5] (06/28, 07/07)	<ul style="list-style-type: none"> 75bps in July "makes sense" Need to get ahead of inflation Expectation risks unmooring without Fed action Fed must ratify market views Soft landing the 'base case' Rates @3.5% this year GDP-GDI debate salient, affects economy perception 	→
Daly [2] (06/28, 07/01)	<ul style="list-style-type: none"> 'Unequivocal commitment' to price stability. Supports 75bps hike in July, 3.1% by year end Growth slipping below 2% but no recession, unemployment a tad higher 	→

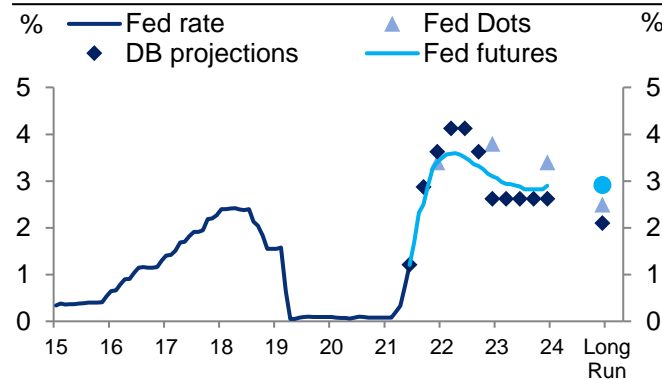
Events to watch this week

When	Who	Setting / topic
Jul-12	Barkin	Recession questions
Jul-13	FRB	Beige Book
Jul-14	Waller	Economic outlook
Jul-15	Bostic	Monetary policy and global uncertainty
	Bullard	Economic outlook



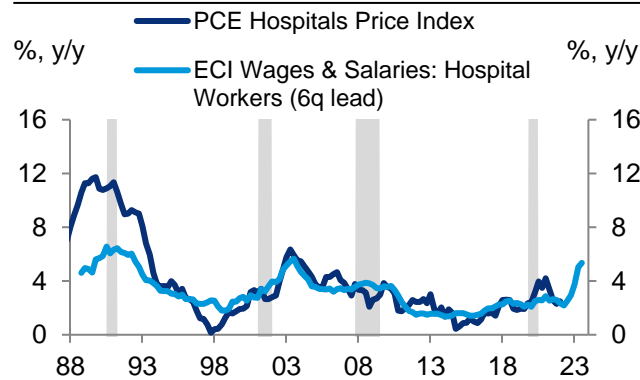
Chart highlights

Market is pricing 75bps hike in July meeting with about 95+% probability



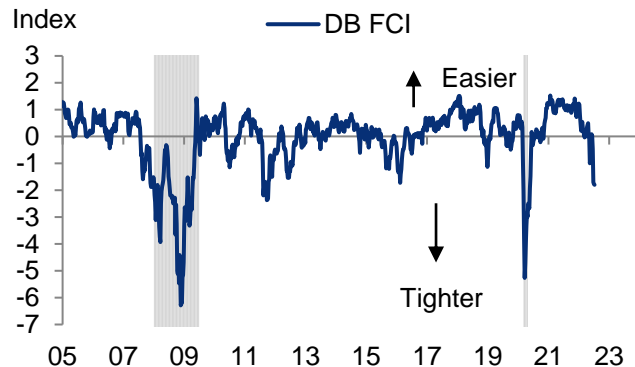
Source: FRB, Bloomberg Finance LP, Haver Analytics, Deutsche Bank

Wage growth for hospital workers leads price inflation in that sector



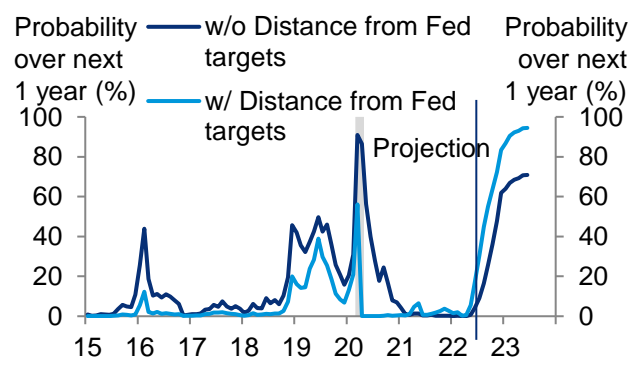
Source: BEA, BLS, Haver Analytics, Deutsche Bank

Financial conditions continued to tighten



Source: FRB Chicago, Haver Analytics, Deutsche Bank

Recession probabilities* considerably higher when we consider Fed distance from target



Source: Deutsche Bank

Recent publications:

[US Economic Perspectives: Underlying inflation underscores Fed's unconditional commitment - Jul-06-2022](#)

[US Economic Chartbook: Help Wanted – Jul-05-2022](#)

[US Economic Perspectives: DB momentum index: Recession more than just a technicality? – Jul-05-2022](#)

[US Economic Perspectives: Far distance from Fed's targets means closer distance to recession - Jun-29-2022](#)

[US Economic Chartbook: Who is buying Treasuries, mortgages, credit and munis? – Jun-24-2022](#)

[US Economic Notes: Data DBrief: Rising hospital wages impart upside to PCE price gauge - Jun-24-2022](#)

[US Economic Chartbook: US Inflation Outlook: Sizzling spring service inflation spooks central Bank - Jun-21-2022](#)



Key economic forecasts

Economic Activity (% qoq, saar)	2022				2023				2024				2022F	2023F	2024F
	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4
GDP	-1.6	-0.6	2.8	1.8	1.0	0.3	-3.2	-0.5	2.5	3.0	2.7	2.3	0.6	-0.6	2.6
Private consumption	1.8	1.1	2.6	2.3	2.1	1.5	-1.1	-1.0	0.5	3.0	2.7	2.3	2.0	0.4	2.1
Investment	5.0	-11.7	6.0	2.3	-6.2	-6.2	-15.4	-1.1	14.7	6.4	5.4	4.9	0.2	-7.4	7.8
Nonresidential	10.0	-1.5	2.0	3.1	1.1	-0.8	-4.4	-3.1	3.8	4.0	4.9	4.3	3.3	-1.8	4.2
Residential	0.5	-10.1	-3.0	-3.0	-2.0	-1.0	-1.0	-1.0	2.5	2.4	2.6	2.7	-4.0	-1.3	2.5
Gov't consumption	-2.9	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	0.0	1.0	1.1
Exports	-4.8	11.0	2.4	3.6	1.3	-2.0	-4.4	-3.0	2.4	3.5	3.5	3.5	2.9	-2.0	3.2
Imports	18.9	-1.0	3.6	4.9	-2.1	-3.3	-5.0	-3.0	4.5	4.5	4.5	4.5	6.3	-3.4	4.5
Contribution (pp):															
Inventories	-0.4	-2.0	0.9	0.1	-1.3	-1.1	-2.4	0.3	1.9	0.5	0.2	0.2	0.9	-0.8	0.3
Net trade	-3.2	1.5	-0.4	-0.5	0.6	0.4	0.4	0.2	-0.6	-0.4	-0.5	-0.5	-0.5	0.2	-0.5
Unemployment rate, %	3.8	3.6	3.5	3.6	3.8	4.2	5.1	5.5	5.3	5.1	4.9	4.7	3.6	5.5	4.7
Prices (% yoy)															
CPI	8.0	8.6	9.0	8.2	6.9	5.3	4.2	3.9	3.7	3.3	3.0	2.9	8.2	3.9	2.9
Core CPI	6.3	6.0	6.1	6.0	5.4	4.9	4.3	3.8	3.4	3.1	2.9	2.8	6.0	3.8	2.8
PCE	6.3	6.6	7.1	6.5	5.7	4.7	3.8	3.6	3.4	3.0	2.7	2.5	6.5	3.6	2.5
Core PCE	5.2	4.8	4.8	4.6	4.3	4.2	3.9	3.5	3.1	2.8	2.5	2.4	4.6	3.5	2.4
Fed Funds	0.375	1.625	2.875	3.625	4.125	4.125	3.625	2.625	2.625	2.625	2.625	2.625	3.625	2.625	2.625

Source: Deutsche Bank



Appendix 1

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