

Deutsche Bank
Research



Fed Watcher: Teeing up another super-sized hike

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DB Fed Watcher: Teeing up another super-sized hike

Summary: Fedspeak signals another 75bp hike in September.

DB View: 75bp hike in Sept, 50/25bps for Nov/Dec. 4.1% terminal rate reached in 2023Q1. Moderate recession and rate cuts in 2023H2.

Fedspeak

Who**	Takeaways	Bias*
Powell [3] (09/08)	<ul style="list-style-type: none"> Committed to achieve price stability No premature policy loosening, should act 'forthrightly' on inflation Very important that inflation expectations remain anchored Labor demand remains very strong Hope to achieve period of below trend growth, will give better labor balance Money supply/inflation relationship unstable, dual mandate not in conflict Non-monetary factors drive level of maximum employment Adjust B/S run-off as economy needs 	→
Brainard [2] (09/07)	<ul style="list-style-type: none"> Full effect of tightening takes time, uncertainty on lag creates risk Fed must defend expectations anchor Need several months of data to confirm slower inflation Restrictive policy needed 'for some time', no premature pause Risks more 2 sided 'at some point' Strong labor market 'hard to reconcile' with other weak indicators House prices cooling in some places 	↓
Evans [1] (09/08)	<ul style="list-style-type: none"> High inflation, labor market really strong, priority is to achieve 2% target Rates 3.25-3.5% end-22, overtightening a concern above 3.5% Expects to hold jobless rate @4.5% Terminal rate 4% in '23, 'forceful' path 'Open minded' on 50/75 bps in Sept. 	↑

Fedspeak, continued

Who**	Takeaways	Bias*
Waller [4] (09/09)	<ul style="list-style-type: none"> Raise rates until at least early-23 Needs 'compelling' evidence of inflation cooling off, hike size data dependent, rate peak can be >4% depending on inflation behavior 'Another significant' hike in Sept. Current stance 'not good enough' 0.3% m/m core PCE rise is not sufficient progress Recession fears faded thanks to robust labor market Supports treasuries-based B/S. 	→
Mester [4] (09/07,09)	<ul style="list-style-type: none"> Favors rates above 4% in early 2023 No rate cuts in '23, no recession in outlook, hike size data dependent, debate on 50/75bps in September Too soon to say inflation has peaked, 2% won't be achieved before 2024 Backs MBS sales sometime in future Prices likely to cool b/w 5-6% by 2023 Needed Fed action will shoot UR above 4% by late 2023 Need 'compelling' evidence of falling inflation, cooler labor market will stabilize the economy Risks on both sides of the policy Favors auto pilot on B/S run-off, focus on liquidity levels as B/S shrinks No housing crash with systemic implications, policy shouldn't create financial stability risks 	→

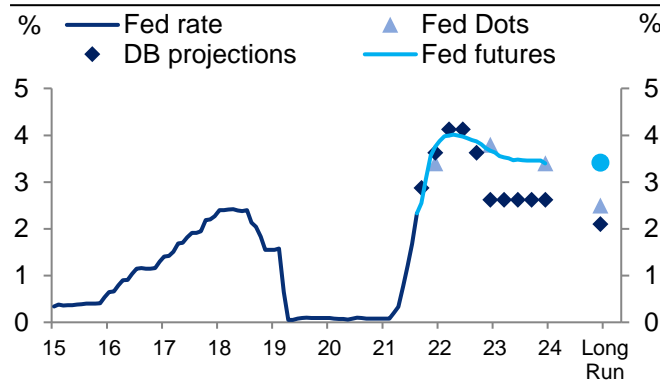
Fedspeak, continued

Who**	Takeaways	Bias*
George [5] (09/09)	<ul style="list-style-type: none"> Hikes should continue, inflation 'still far above' 2% target Terminal rate to be determined by economic performance More clarity on B/S can tame volatility Hikes can manage demand amidst supply issues, B/S wrap-up going well B/S trimming may involve asset sales 	→
Barkin [3] (09/07)	<ul style="list-style-type: none"> Rates stay high until inflation eases 'Bias towards moving more quickly' Real rates need to be positive 	→
Collins [2] (09/07)	<ul style="list-style-type: none"> Inflation 'simply too high' Returning to 2% 'really job one' Premature to specify Sep. decision Supply factors important in inflation Focus on broad-based labor market strength 	↓
Barr [3] (09/07)	<ul style="list-style-type: none"> Inflation 'far too high', committed to bring inflation down 	→
Bullard [5] (09/09)	<ul style="list-style-type: none"> 'Strongly' supports 75bps hike Markets underpricing 'higher for longer' rates, 3.5-4% by end-22 More frontloading, 'sooner is better' Tight labor, lots of wage pressure Good CPI will not affect Sept. call 	↑



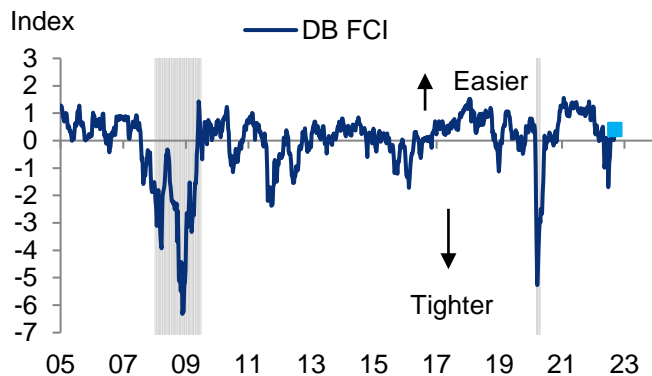
Chart highlights

Market is pricing 75bps hike in Sept meeting with about ~90% probability



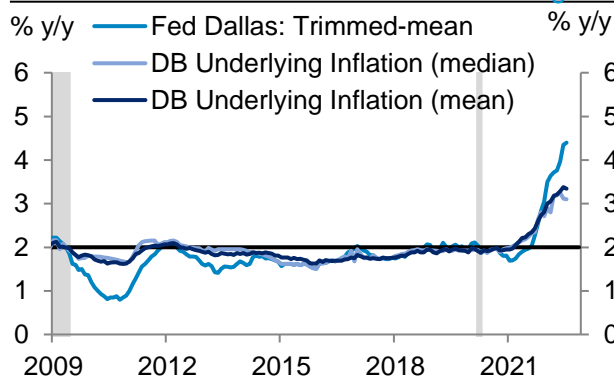
Source: FRB, Bloomberg Finance LP, Haver Analytics, Deutsche Bank

Financial conditions eased from last week



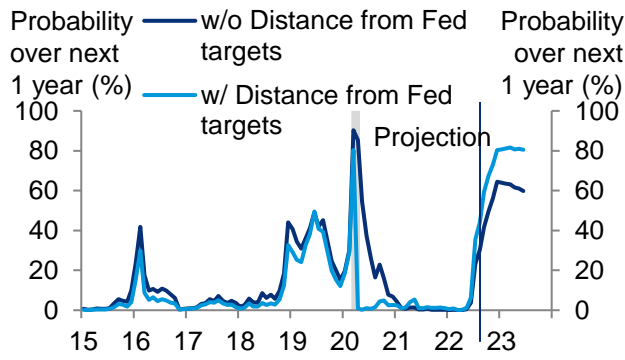
Source: FRB Chicago, Haver Analytics, Deutsche Bank

Measures of broad-based inflation near highs



Source: FRB Dallas, BEA, Haver Analytics, Deutsche Bank

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



Source: Deutsche Bank

Recent publications:

[Fed Notes: 75 but not so sunny for the September FOMC – Sep-09-2022](#)

[US Economic Chartbook: Still going... - Sep-06-2022](#)

[US Economic Perspectives: “CIE”ing \(5y5y ahead\) is believing \(the Fed\) – Sep-01-2022](#)

[US Economic Perspectives: Inflation: Stayin’ alive on supply in the 70s, dancing to demand today – Aug-29-2022](#)

[Fed Notes: Fed heads to Jackson with inflation in a fever – Aug-19-2022](#)

[US Economic Chartbook: Inflation outlook: One small step down, but a giant leap still needed – Aug-16-2022](#)

[Fed Notes: DB shadow fed funds rate hits 4% - Aug-11-2022](#)



Key economic forecasts

Economic Activity	2022				2023				2024				2022F	2023F	2024F
(% qoq, saar)	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4
GDP	-1.6	-0.6	3.0	1.9	1.1	0.2	-3.2	-0.5	2.6	3.1	2.7	2.3	0.7	-0.6	2.7
Private consumption	1.8	1.5	1.7	2.1	1.6	1.3	-1.1	-1.0	0.5	3.0	2.7	2.3	1.8	0.2	2.1
Investment	5.0	-13.2	-0.2	3.9	-1.9	-6.4	-15.3	-1.2	14.7	6.4	5.5	5.0	-1.4	-6.4	7.8
Nonresidential	10.0	0.0	3.6	4.1	1.0	-0.9	-4.2	-3.1	3.8	4.0	5.0	4.3	4.3	-1.8	4.3
Residential	0.5	-16.2	-15.5	-7.5	-2.0	-1.0	-1.0	-1.0	2.5	2.4	2.6	2.7	-9.9	-1.3	2.5
Gov't consumption	-2.9	-1.8	-0.7	1.8	3.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	-0.9	1.7	1.1
Exports	-4.8	17.6	9.1	2.1	1.3	-2.0	-4.4	-3.0	2.4	3.5	3.5	3.5	5.7	-2.0	3.2
Imports	18.9	2.8	-5.9	5.3	2.1	-3.3	-5.0	-3.0	4.5	4.5	4.5	4.5	4.9	-2.3	4.5
Contribution (pp):															
Inventories	-0.4	-1.8	-0.2	0.4	-0.4	-1.1	-2.4	0.3	1.9	0.5	0.2	0.2	0.7	-0.7	0.3
Net trade	-3.2	1.4	2.3	-0.8	-0.2	0.4	0.4	0.2	-0.6	-0.4	-0.4	-0.4	-0.8	0.2	-0.4
Unemployment rate, %	3.8	3.6	3.6	3.7	3.9	4.3	5.2	5.6	5.5	5.2	5.0	4.6	3.7	5.6	4.6
Prices (% yoy)															
CPI	8.0	8.6	8.2	7.2	5.8	3.9	3.6	3.4	3.3	3.2	3.0	2.9	7.2	3.4	2.9
Core CPI	6.3	6.0	6.1	5.8	5.1	4.4	3.9	3.6	3.3	3.1	2.8	2.7	5.8	3.6	2.7
PCE	6.3	6.5	6.0	5.3	4.4	3.2	3.1	3.0	2.9	2.8	2.6	2.5	5.3	3.0	2.5
Core PCE	5.2	4.8	4.9	4.6	4.1	3.9	3.5	3.1	2.9	2.6	2.4	2.3	4.6	3.1	2.3
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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