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Research



## Fed Watcher: Hammering home the hawkish message

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October 03, 2022

Distributed on: 03/10/2022 21:10:14 GMT

# DB Fed Watcher: Hammering home the hawkish message



**Summary:** Reiterated the message from September FOMC meeting that further tightening needed to restore price stability

**DB View:** 75/50bps for Nov/Dec. 4.9% terminal rate reached in 2023Q1. Moderate recession and rate cuts in 2023H2.

## Fedspeak

Who**	Takeaways	Bias*
Brainard [2] (09/30)	<ul style="list-style-type: none"> <li>Risks turn more 2 sided at some point</li> <li>Policy operates with some lag</li> <li>Proceed deliberately, data dependent</li> <li>Restrictive policy for some time. No premature pulling back</li> <li>Consider spillover from global tightening</li> <li>Inflation 'very high', more hikes ahead</li> <li>Most real yields are 'solidly' positive</li> </ul>	↓
Evans [2] (09/27,28)	<ul style="list-style-type: none"> <li>Taming inflation is job 1, getting to 'restrictive' territory</li> <li>Rates peak by March, then hold</li> <li>Year-end rate @4.25%-4.5%, real rate likely @1.5% next spring</li> <li>4.5% UR a very good outcome</li> <li>Reduction in B/S equivalent to 35-50bps of policy restraint, outlook in line with Fed, expectations anchored</li> <li>Fundamentals good but could worsen</li> </ul>	→
Bullard [5] (09/27,29)	<ul style="list-style-type: none"> <li>Credibility of inflation targeting at risk</li> <li>Rate arguably in restrictive territory. Terminal at 4.5%. Higher for longer</li> <li>Labor market strong, better chance of success than Volcker era</li> <li>Recession risk higher, not base case</li> <li>UK spillovers not affecting US outlook</li> </ul>	→
Barkin [3] (09/30)	<ul style="list-style-type: none"> <li>Seek positive real rates across Treasury curve. Favor "a little aggressive" rate moves for risk mgt</li> <li>See more systematic inflation risk. Pressure from wage and material cost</li> </ul>	→

## Fedspeak, continued

Who**	Takeaways	Bias*
Bostic [3] (09/26,28)	<ul style="list-style-type: none"> <li>75/50 bps in Nov/Dec, rates @4.25%-4.5% year-end. Need to get to 'moderately restrictive'</li> <li>UK tax cuts add to recession odds</li> <li>Inflation 'too high', not falling fast enough. Economy has momentum</li> </ul>	↑
Mester [4] (09/26,29)	<ul style="list-style-type: none"> <li>Further rate hikes, no cuts in 2023. Nov hike size data dependent. Current rates level not restrictive</li> <li>Recession won't stop Fed from hiking</li> <li>Get real rates to positive, then hold</li> <li>More restrictive policy needed for longer. Recession not base case</li> <li>Risks are changing as rates go up</li> <li>Need several months of falling inflation</li> <li>Bumpy with slow growth, employment</li> <li>Rate forecast above Sept SEP median</li> <li>See inflation more persistent than SEP</li> </ul>	↑
Daly [2] (09/27,29,30)	<ul style="list-style-type: none"> <li>4%-4.5% by year end, 4.5%-5% in '23</li> <li>Not end up doing 'too little'/'too much'. Watch for signs that enough has been done. Narrower path to soft landing</li> <li>Early signs of labor market easing</li> <li>Raise rates and hold. Policy impact will unfold over time</li> </ul>	→
Kashkari [5] (09/27)	<ul style="list-style-type: none"> <li>Appropriately aggressive pace</li> <li>More tightening. No premature easing. Need sustained tighter policy</li> <li>Inflation no progress. Upside risk</li> <li>Policy acts with lag. Mindful risk of overtightening</li> </ul>	→

## Fedspeak, continued

Who**	Takeaways	Bias*
Harker [4] (09/27)	<ul style="list-style-type: none"> <li>Build more housing to ease long term shelter inflation</li> </ul>	→
Logan [3] (09/26)	<ul style="list-style-type: none"> <li>Tackling inflation 'number one priority'</li> <li>B/S shrinking in orderly manner</li> </ul>	→
Collins [2] (09/26)	<ul style="list-style-type: none"> <li>Soft-landing challenging but possible</li> <li>Inflation may have peaked/near peak</li> </ul>	→

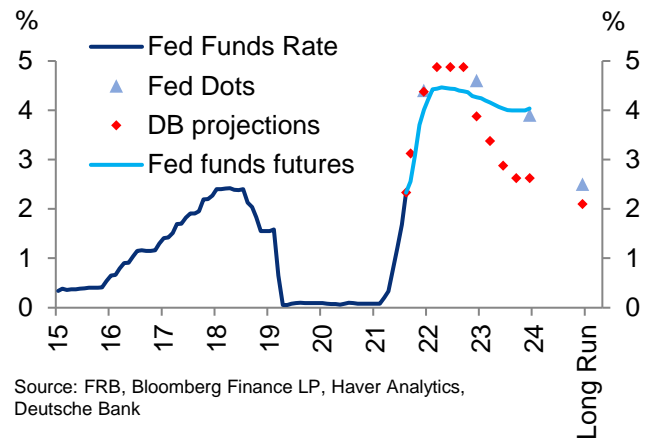
## Events to watch this week

When	Who	Setting / topic
Oct-03	Bostic	Technology conference
	Williams	Hispanic Chamber Conference
Oct-04	Logan	Technology event
	Williams	Work Culture Event
	Mester	Conference on payment system
	Jefferson	Atlanta Fed Conference
	Daly	Council on Foreign relations
Oct-05	Bostic	Inflation
	Evans	Moderated Q&A
Oct-06	Cook	Economic outlook
	Waller	Economic outlook
	Mester	Economic outlook
Oct-07	Williams	Moderated Q&A
	Bostic	Discusses inequality

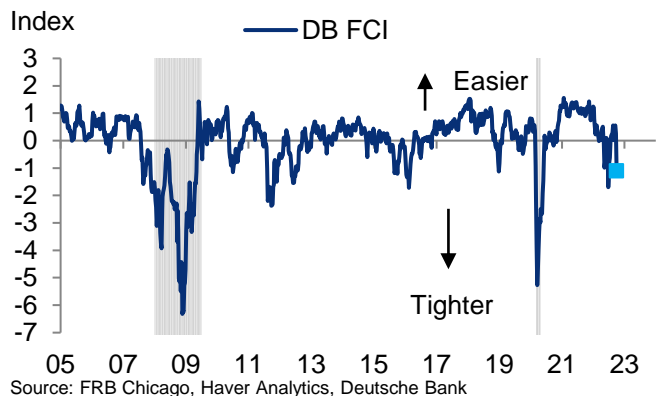


# Chart highlights

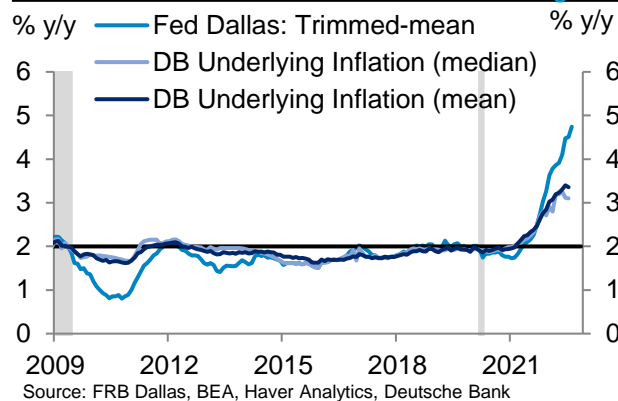
Market is pricing ~70% probability of a 75bps hike for Nov FOMC



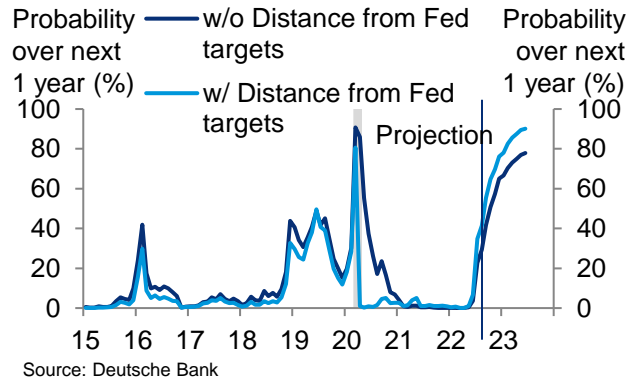
Financial conditions tightened sharply last week



Measures of broad-based inflation near highs



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



## Recent publications:

[US Economic Chartbook: Who is buying Treasuries, mortgages, credit and munis? \(September 2022\) – Sep-23-2022](#)

[US Economic Perspectives: Hawks cast long shadows – Sep-22-2022](#)

[Fed Notes: September FOMC recap: Dots dispel any commitment doubts – Sep-21-2022](#)

[US Economic Chartbook: US Inflation Outlook: No back-to-school savings for the Fed – Sep-19-2022](#)

[Fed Notes: September FOMC preview: Highway to the danger zone – Sep-16-2022](#)

[US Economic Perspectives: Determining terminal: Why a 5% policy rate will be needed – Sep-15-2022](#)

[US Economic Notes: August CPI recap: Dog days of summer inflation – Sep-13-2022](#)

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

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



# Hawk-Dove score table

<u>Permanent voting members</u>					
		Jerome H. Powell, Chair	3		
		Lael Brainard, Vice Chair	2		
		Michael C. Barr, VC Sup.	3		
		Michelle K. Bowman, Gov.	3		
		Lisa D. Cook, Governor	2		
		Phillip N. Jefferson, Gov.	3		
		Christopher J. Waller, Gov.	5		
		John C. Williams, New York	2		
<u>Rotating voting members</u>					
2022 Voters		2023 Voters		2024 Voters	
Loretta Mester, Cleveland	4	Chicago Fed President	2	Cleveland Fed President	4
Susan M. Collins, Boston	2	Lori K. Logan, Dallas	3	Tom Barkin, Richmond	3
James Bullard, St. Louis	5	Patrick Harker, Philadelphia	4	Raphael Bostic, Atlanta	3
Esther George, Kansas City	4	Neel Kashkari, Minneapolis	5	Mary C. Daly, San Francisco	2
Average ranking >	3.2	Average ranking >	3.1	Average ranking >	2.9

Scores: 1=Dove, 3=Neutral, 5=Hawk

Source: Deutsche Bank



# 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	8.3	7.2	6.0	4.2	3.9	3.9	3.5	3.3	3.1	2.9	7.2	3.9	2.9
Core CPI	6.3	6.0	6.3	6.2	5.6	4.9	4.4	3.8	3.5	3.2	2.8	2.6	6.2	3.8	2.6
PCE	6.3	6.5	6.1	5.3	4.6	3.5	3.5	3.4	3.1	2.9	2.6	2.5	5.3	3.4	2.5
Core PCE	5.2	4.8	4.8	4.9	4.5	4.3	4.0	3.4	3.0	2.7	2.3	2.2	4.9	3.4	2.2
Fed Funds	0.375	1.625	3.125	4.375	4.875	4.875	4.875	3.875	3.375	2.875	2.625	2.625	4.375	3.875	2.625

Source: Deutsche Bank



# Appendix 1

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\*Other information available upon request

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