

Deutsche Bank
Research



Fed Watcher: “Sufficiently restrictive” depends on the data

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IMPORTANT RESEARCH DISCLOSURES AND ANALYST CERTIFICATIONS LOCATED IN APPENDIX 1. MCI (P) 097/10/2022. UNTIL 19th MARCH 2021 INCOMPLETE DISCLOSURE INFORMATION MAY HAVE BEEN DISPLAYED, PLEASE SEE APPENDIX 1 FOR FURTHER DETAILS.

DB Fed Watcher: “Sufficiently restrictive” depends on the data



Summary: Fed communications keep optionality on further rate increases, with a few officials noting the substitute tightening impact from recent yield rises

DB View: Hold rate at the current level of 5.3% through year end. Mild recession starts in Q1 2024 and first cut in June 2024.

Fedspeak

Who**	Takeaways	Bias*
Jefferson [2] (10/09)	<ul style="list-style-type: none"> Too soon to say ‘done enough’ Can ‘proceed carefully’ amid better risk balance, mindful of past hike impacts Will keep in mind the tightening impact of higher yields when making policies Rising yields may reflect stronger economy or risks Starting in ‘24, more will be hit by hikes, including corporate refinancing Equilibrium real rate may have risen Expect further gradual easing of labor market conditions Upside inflation risks from strong economy, labor market, energy prices Downside risks from China, Europe 	
Mester [4] (10/02,03,06)	<ul style="list-style-type: none"> Rates at/near peak, assessing how long to keep rates restrictive Very strong job market. Sept job report did not change her view of labor market Despite progress inflation remains ‘too high’, see upside inflation risks. Reach 2% target by end-2025 Further tightening data dependent. Up for Nov. hike if economy holds steady Can raise rates “once more” and hold for some time. No cuts any time soon Student loans repayments may affect spending but no abrupt change Yields up on a number of factors including changed outlook on growth 	

Fedspeak, continued

Who**	Takeaways	Bias*
Bowman [4] (10/07)	<ul style="list-style-type: none"> Further hikes likely needed 	
Bostic [2] (10/03,10)	<ul style="list-style-type: none"> Still ‘ways to go’ on inflation. Be patient, achieve 2% by end-2025 No need to hike, unless outlook changes Hold rates steady ‘for a long time’. Sees one rate cut near 2024 year end Economy clearly slowing, lot of impact yet to come, no recession in projection Looking for a new equilibrium on rates Labor-market slowdown will continue No additional impact on business from higher long-term rates Loss of childcare benefits, student loan repayments could sap demand Energy prices, geopolitics pose upside risk to inflation 	
Daly [3] (10/05,06)	<ul style="list-style-type: none"> Need optionality on policy. Aim to restore price stability as gently as possible. No rush to decisions Can hold rates steady if labor, prices keep cooling. Tighter fin. conditions could reduce the need for hikes Recent rise in yield equal to one hike Unsure if neutral rate turned higher Market pricing of hike probabilities in Nov., Dec., are not extraordinarily high, which is in line Not declaring victory too soon Steady rates make policy more restrictive as inflation falls 	

Fedspeak, continued

Who**	Takeaways	Bias*
Logan [3] (10/09)	<ul style="list-style-type: none"> Higher long-term rates due to higher premiums mean less need to hike Need continued restrictive fin. condition Rates might go higher for strong economy. Too soon to consider cuts Long term neutral rate may be higher Quite a bit of room for B/S runoff 	

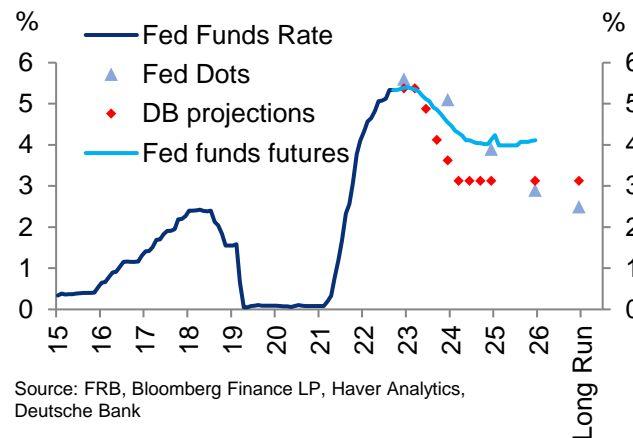
Events to watch next week

When	Who	Setting / topic
Oct-10	Kashkari	Town Hall
	Daly	Chicago Council on Global Affairs
	Bowman	Marrakech Economic Festival
	Waller	Fireside chat at E2 Summit
Oct-11	Bostic	Metro Atlanta Chamber
	FOMC	Sep-20 meeting minutes
	Collins	Speaks at Wellesley College
Oct-12	Bostic	National Agriculture Conference
	Collins	Community Bankers Conference
Oct-13	Harker	2023 economic outlook

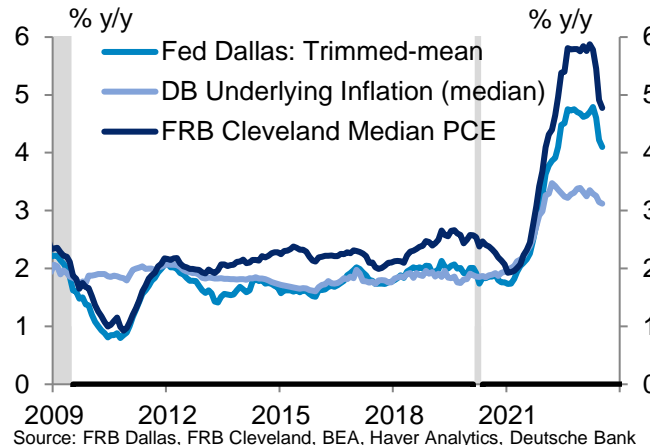
Chart highlights



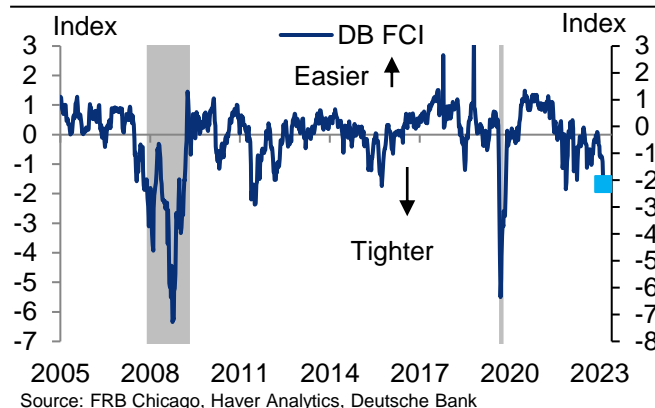
Market is pricing a terminal rate close to our view but lower than the Fed's September SEP



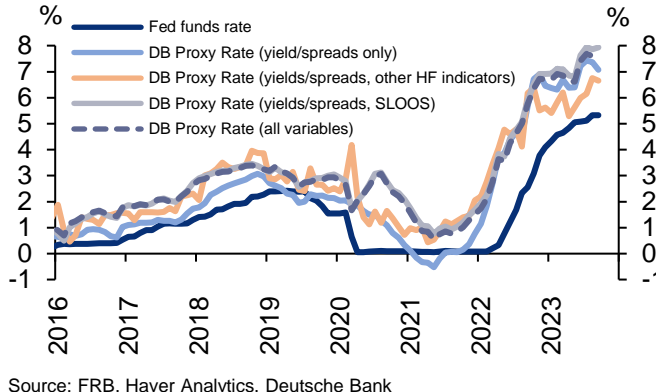
Measures of broad-based inflation rolled over though remaining elevated



Financial conditions have tightened in recent months



An "all in" DB proxy rate was far above 7% in September



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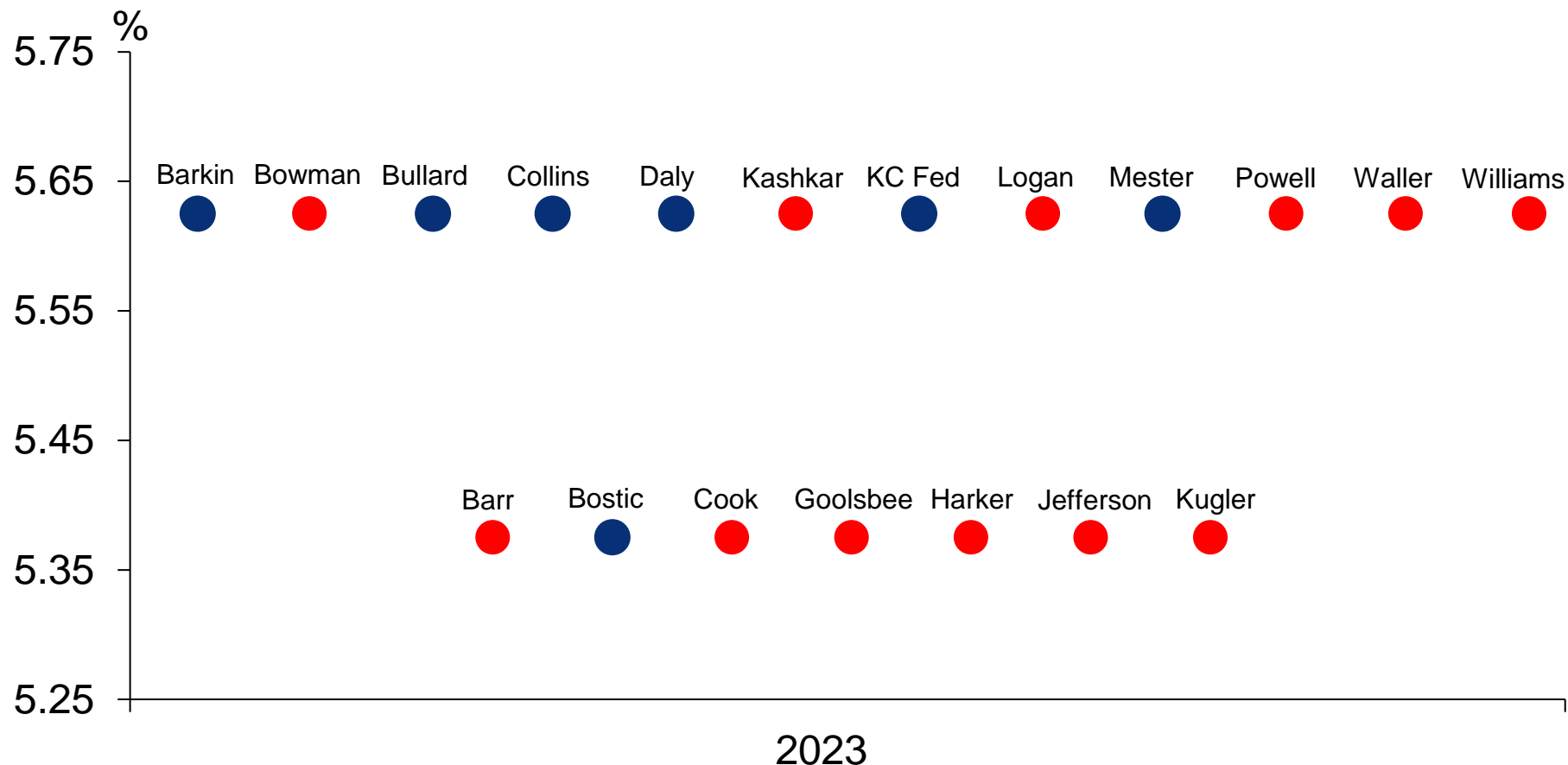
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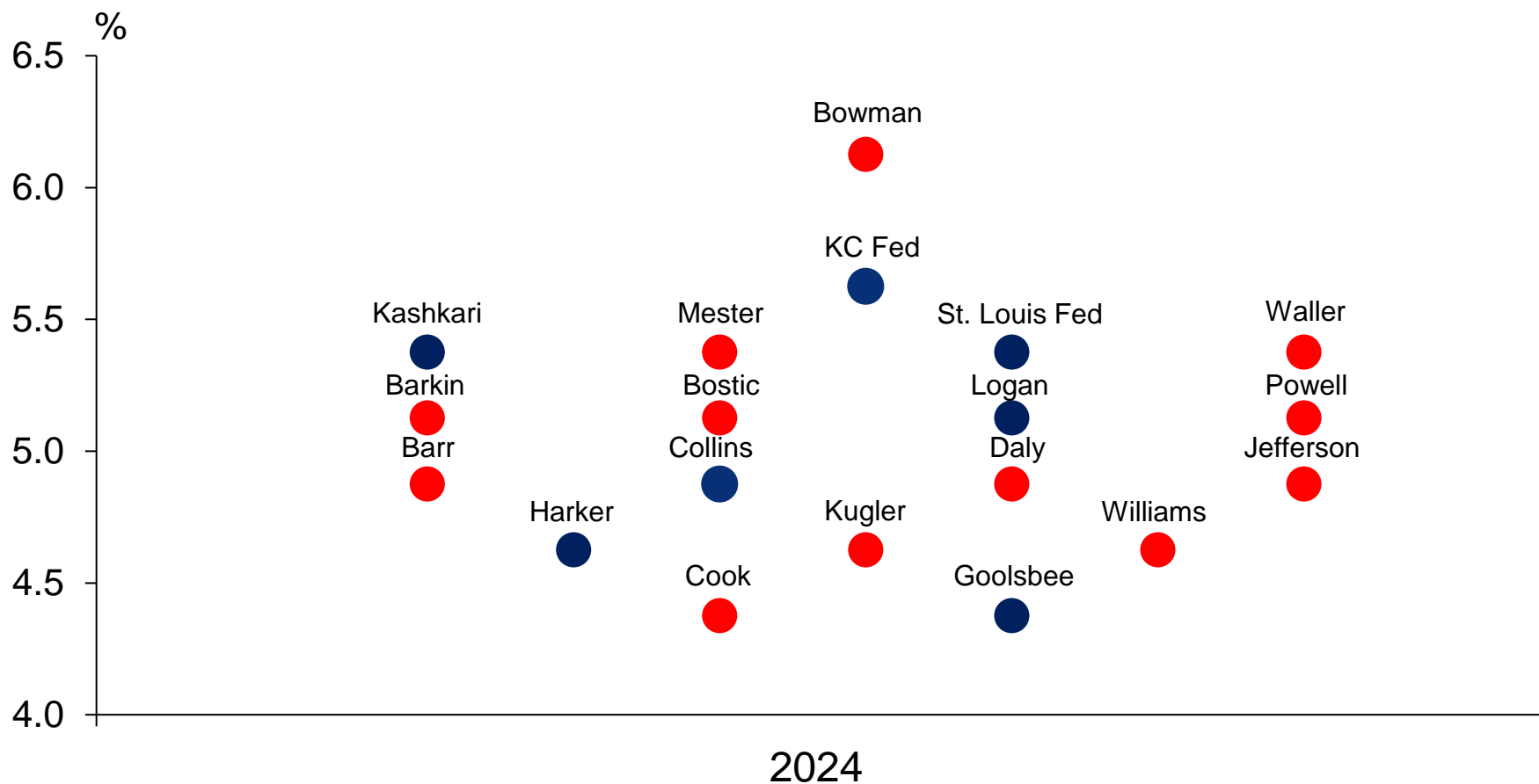
Identifying the 2023 dots from the September SEP



Note: The red dots are for voters. Source: Deutsche Bank



Identifying the 2024 dots from the September SEP



Note: The red dots are for voters. Source: Deutsche Bank



Hawk-Dove score table

<u>Permanent voting members</u>					
		Jerome H. Powell, Chair	3		
		Phillip N. Jefferson, VC	2		
		Michael C. Barr, VC Sup.	3		
		Michelle K. Bowman, Gov.	4		
		Lisa D. Cook, Gov.	2		
		Adriana D. Kugler	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	Austan Goolsbee, Chicago	1	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	3	Raphael Bostic, Atlanta	2
Esther George, Kansas City	4	Neel Kashkari, Minneapolis	5	Mary C. Daly, San Francisco	3
Average ranking >	3.3	Average ranking >	3.0	Average ranking >	3.0

Scores: 1=Dove, 3=Neutral, 5=Hawk
Source: Deutsche Bank



Key economic forecasts

Economic Activity	2023				2024				2025				2023F	2024F	2025F
(% qoq, saar)	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4
GDP	2.2	2.1	4.1	1.1	-0.6	-1.7	1.0	2.4	2.7	2.0	2.0	2.1	2.4	0.3	2.2
Private consumption	3.8	0.8	3.5	1.5	-0.5	-1.9	0.6	2.1	2.4	2.3	2.2	2.1	2.4	0.0	2.2
Investment	-9.0	5.2	3.9	1.5	-2.7	-2.1	2.8	4.9	6.4	3.3	3.4	4.4	0.2	0.7	4.4
Nonresidential	5.7	7.4	1.3	0.4	-1.8	-3.2	1.6	4.3	3.6	3.6	3.7	3.7	3.7	0.2	3.6
Residential	-5.3	-2.2	11.5	-1.1	-1.5	-0.5	2.6	2.7	2.5	2.4	2.6	2.7	0.5	0.8	2.5
Gov't consumption	4.8	3.3	1.1	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	2.5	0.9	0.9
Exports	6.8	-9.3	8.0	1.0	3.0	1.5	3.0	3.5	3.6	3.5	3.6	3.5	1.4	2.7	3.5
Imports	1.3	-7.6	1.0	3.0	1.2	2.1	2.7	3.1	4.5	4.5	4.5	4.5	-0.7	2.3	4.5
Contribution (pp):															
Inventories	-2.2	0.0	0.2	0.3	-0.2	0.1	0.2	0.2	0.5	0.0	0.0	0.2	-0.5	0.1	0.2
Net trade	0.6	0.0	0.7	-0.3	0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.1	-0.3
Unemployment rate, %	3.5	3.6	3.7	3.9	4.3	4.6	4.6	4.5	4.5	4.4	4.4	4.3	3.9	4.5	4.3
Prices (% yoy)															
CPI	5.8	4.1	3.5	3.5	3.1	2.7	2.4	2.1	2.0	2.0	2.0	1.7	3.5	2.1	1.7
Core CPI	5.6	5.2	4.4	3.8	3.3	2.7	2.6	2.7	2.7	2.8	2.8	2.5	3.8	2.7	2.5
PCE	5.0	3.9	3.4	3.4	2.9	2.5	2.2	1.9	1.7	1.8	1.7	1.5	3.4	1.9	1.5
Core PCE	4.8	4.6	3.9	3.4	2.9	2.5	2.4	2.4	2.3	2.5	2.4	2.2	3.4	2.4	2.2
Fed Funds	4.875	5.125	5.375	5.375	5.375	4.875	4.125	3.625	3.125	3.125	3.125	3.125	5.375	3.625	3.125

Source: Deutsche Bank



Appendix 1

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