Market Update – June 2022

- The FOMC delivered a 75bp rate hike at its June meeting yesterday, and the median dot projected a target range for the funds rate of 3.25-3.5% at end 2022. While there is more than one way to get there, the most likely path is 50bp hike in July, a 50bp hike in September, and 50 bp hikes in November and 25 bp hike in December. The bond market viewed the meeting as dovish— likely focusing on Powell's comments that he does "not expect moves of this size to be common" and sees the FOMC as most likely to hike by 50bp or 75bp (not 100bp) in July
- Powell offered a balanced message, he indicated that he was comfortable with the tightening in financial conditions so far, but also forcefully made it clear that the FOMC is not aiming to induce a recession. The Summary of Economic Projections (SEP) reinforced the message that the FOMC aims to soften the labour market but avoid a recession.
- Powell again deemphasized the neutral rate, most FED members appear to base their forecasts on the view that holding the funds rate moderately above neutral will exert sufficient downward pressure on inflation.

Transactions in System Open Market Account continues as follows

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 1.5% to 1.75%.
- Conduct overnight repurchase agreement operations with a minimum bid rate of 1.75% and with an aggregate operation limit of $500 billion; the aggregate operation limit can be temporarily increased at the discretion of the Chair.
- Conduct overnight reverse repurchase agreement operations at an offering rate of 1.55% and with a per-counterparty limit of $160 billion per day; the per-counterparty limit can be temporarily increased at the discretion of the Chair.
- Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in the calendar months of June and July that exceeds a cap of $30 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
- Reinvest into agency mortgage-backed securities (MBS) the amount of principal payments from the Federal Reserve's holdings of agency debt and agency MBS received in the calendar months of June and July that exceeds a cap of $17.5 billion per month.
- Allow modest deviations from stated amounts for reinvestments, if needed for operational reasons.
- Engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.

Summary of SEP

1. Real GDP central tendency for the long run is 1.8% to 2.0%
2. Real GDP range for the longer run is 1.6% to 2.2%
3. Unemployment rate central tendency for the longer run is 3.5%-4.2%
4. PCE Price Index central tendency for the longer run is 2.0%

*as of 16 June 2022, Aditum Investment Management Limited

The Unknowns that can dramatically change the landscape and ease inflationary pressure are:

- Russia / Ukraine situation; the outcome over the next 5-6 months, a conclusion could see a massive asset price rally.
- China lockdown situation is seeing a slight improvement, any uptick on Chinese economic activity would reduce price pressures substantially.
- Full impact of Quantitative tightening over the next 6 months, specially in the light of FED front loading rates
- Dollar index impact on inflation

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