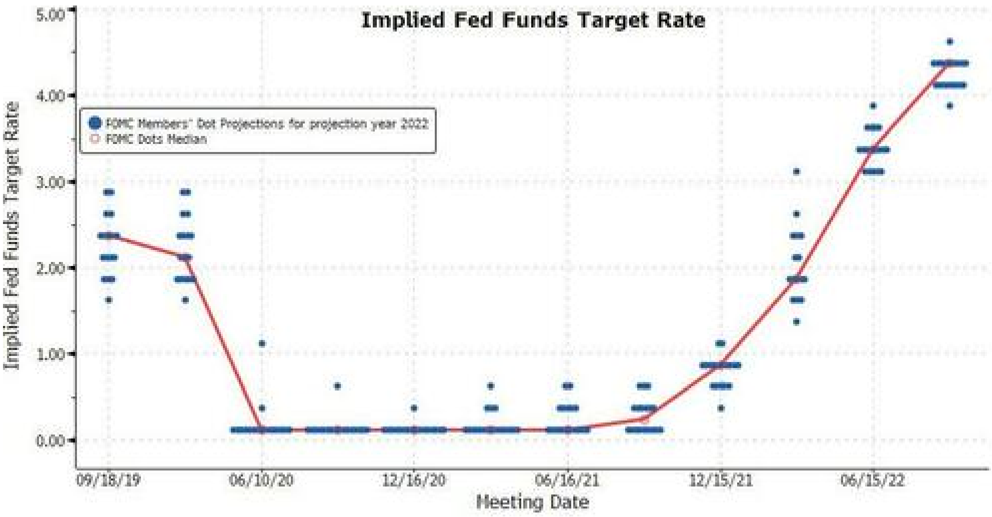
Fed Hikes Rates Another 75bps, Sends Hawkish ‘Higher For Longer’ Signal With DotPlot

Description

Tl;dr: For the 3rd meeting in a row, The Fed hiked 75bps as expected but signaled a **much more hawkish than expected** future trajectory of rates (higher for longer).

The Fed also **slashed its economic growth expectations and increased its unemployment rate** expectations.



As Bloomberg noted, “The higher median dot is ***a signal to us that the Fed is committed to its inflation-fighting mandate.***”

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A lot has happened since the last FOMC meeting on July 27th. Fed Pivot narratives have imploded along with risk-asset prices as 'peak inflation' guesses failed to appear and at the same time growth fears were resurrected prompting growing fears of stagflation and a post-Jackson-Hole uber-hawkish Fed.

The dollar has been on a one-way trip higher since the last Fed meeting while pretty much everything else has tumbled – stocks and gold are almost exactly down the same while bonds have been a bloodbath… (red dashed line is Jackson Hole)

Source: Bloomberg

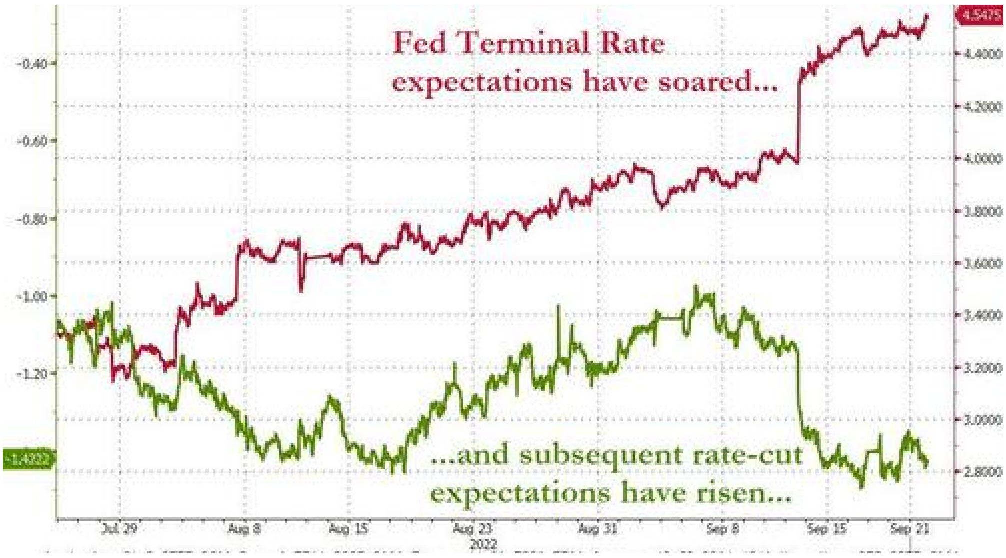
Focusing on bonds, 2Y yields are up over 100bps since the last Fed meeting (notably underperforming the long-end and flattening the yield curve dramatically). The two inflection points are Powell's Jackson Hole speech and last week's CPI print…

Source: Bloomberg

And thus, **Financial Conditions have dramatically tightened** since the last FOMC (helped by J-Hole of course) to new cycle tights…

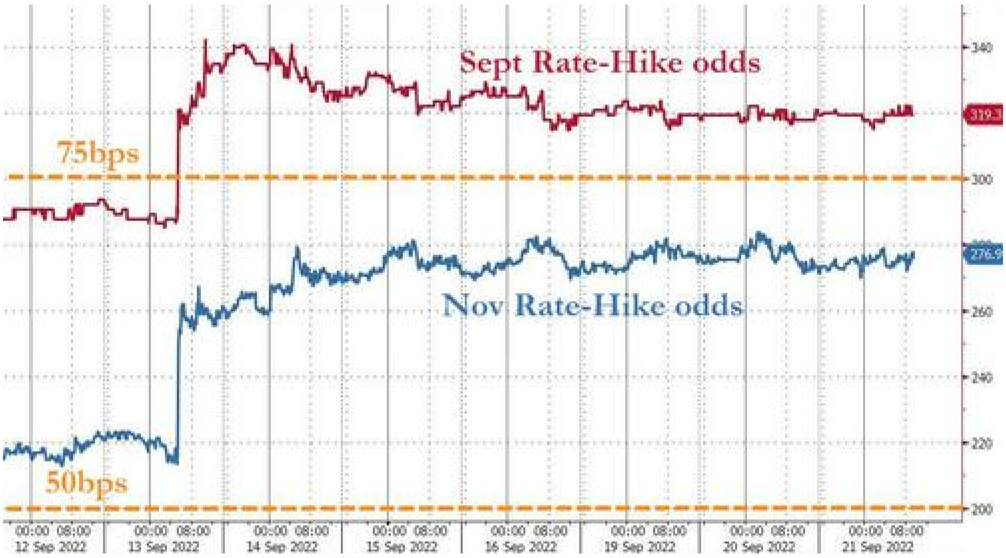
Source: Bloomberg

The market's expectation for The Fed's Terminal Rate has soared a stunning 125bps from 3.25% to over 4.50% (and at the same time, subsequent, recession-inspired, rate-cuts expectations have risen too)…



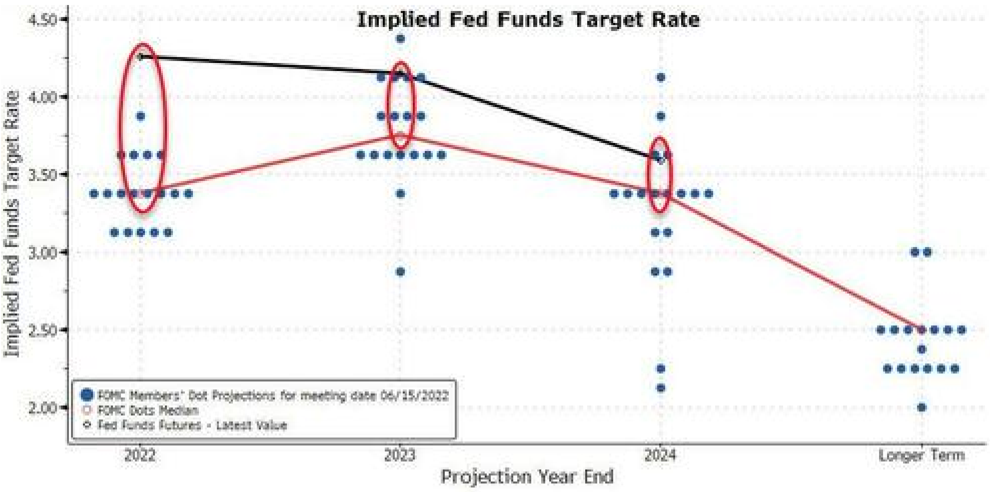
Source: Bloomberg

Most (94/96) economists expected a 75bps hike today, but the market left the option open for 100bps, pricing in a 20% chance of that mega hike…



Source: Bloomberg

Today we also get new DotPlots and inflation/growth estimates… and as Goldman noted, ***"the dot plot probably matters more" than the rate-hike size.*** Ahead of today's shift, the market is dramatically more hawkish than The Fed's "dots"…



Source: Bloomberg

So which will it be today: ***75bps & Hawkish presser? or 100bps & Dovish presser? (or a blend of both)?***

> Robinhood traders ahead of FOMC meeting pic.twitter.com/q1RBQQSW2D
>
> — Wall Street Memes (@wallstmemes) [September 21, 2022]()

Here's what happened…

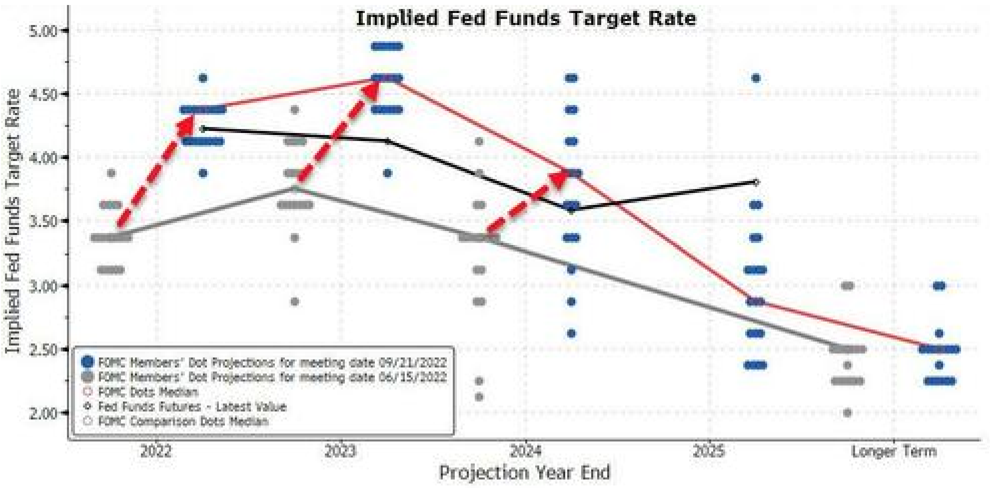
- *FED HIKES 75 BPS, REPEATS IT ANTICIPATES ONGOING RATE HIKES ARE APPROPRIATE

The Committee reiterates its previous language that it is ***"highly attentive to inflation risks."***

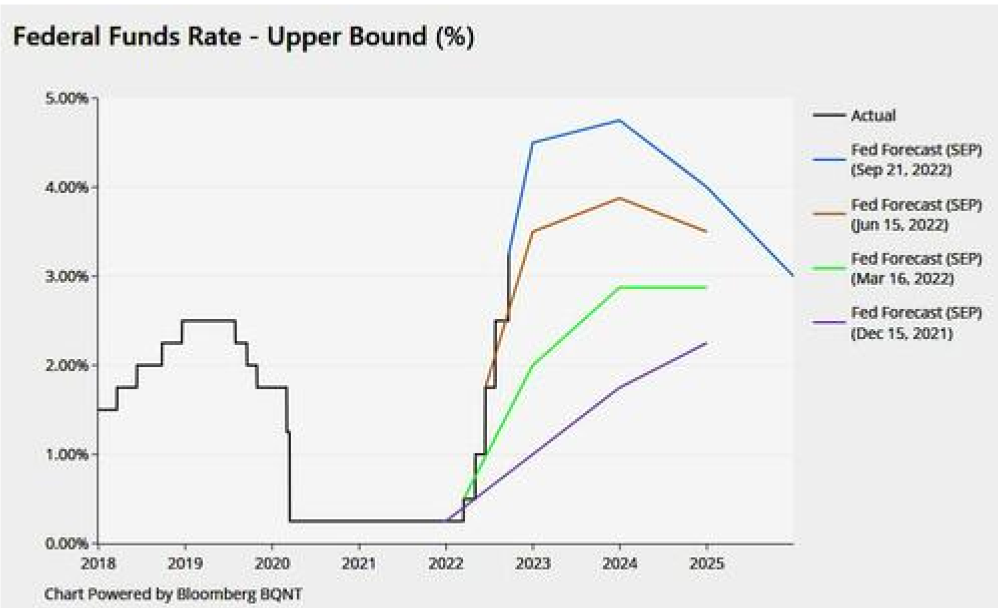
The new DotPlot is very hawkish:

- MEDIAN FORECAST SHOWS RATES 4.4% AT END-2022, AT 4.6% IN 2023, 3.9% IN 2024

The most hawkish dots (and there are six of them) now see the fed funds rate reaching nearly 5% in 2023.



It's been quite a shift in The Fed's own projections over the past four quarters…



While Wednesday’s decision was unanimous, the dot plot shows 10-9 majority in favor of hiking above 4.25% this year, suggesting **a fourth straight 75 basis-point increase in November is possible, which comes about a week before the midterm elections.**

Ira Jersey notes that **some FOMC members see about 100 bps of cuts in 2024,** with more in 2025.

Remember, until Powell’s Jackson Hole speech, the Fed had been talking about a soft landing (and the economic projections at the June meeting reflected that thinking).

Today’s updated projections suggest the “pain” that Powell hinted at is coming…

- **The Fed substantially revised down GDP forecasts**, with the median estimate for growth this year at just 0.2%, down from 1.7% forecast in June.
- **Unemployment rate forecasts are up,** with the median now at 4.4% for both 2023 and 2024. The long-run rate is unchanged at 4%.
- Both headline and core PCE forecasts are up for this year and next. **The Fed doesn’t see inflation returning to its 2% target until 2025.**

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2022

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
June projection	1.7	1.7	1.9		1.8	1.5–1.9	1.3–2.0	1.5–2.0		1.8–2.0	1.0–2.0	0.8–2.5	1.0–2.2		1.6–2.2
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
June projection	3.7	3.9	4.1		4.0	3.6–3.8	3.8–4.1	3.9–4.1		3.5–4.2	3.2–4.0	3.2–4.5	3.2–4.3		3.5–4.3
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
June projection	5.2	2.6	2.2		2.0	5.0–5.3	2.4–3.0	2.0–2.5		2.0	4.8–6.2	2.3–4.0	2.0–3.0		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
June projection	4.3	2.7	2.3			4.2–4.5	2.5–3.2	2.1–2.5			4.1–5.0	2.5–3.5	2.0–2.8		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0
June projection	3.4	3.8	3.4		2.5	3.1–3.6	3.6–4.1	2.9–3.6		2.3–2.5	3.1–3.9	2.9–4.4	2.1–4.1		2.0–3.0

Despite the hawkish dot-plot, a record number of policy makers still see the risk to their inflation forecast is on the upside.

Even after raising rates fast and furiously, the Fed may be still playing catch-up. Not a good sign for risk markets.

After today's hike, The Fed Funds rate will have increased by the most amount since the six months ending March 1981.

* * *

Read the full redline below – Almost zero change in the policy statement. **Really no indication there that we are heading towards any sort of pivot.**

Recent indicators ~~of~~point to modest growth in spending and production~~ have softened. Nonetheless, job~~. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to ~~2~~3 to 3-1/4~~ to 2-1/2~~ percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lael Brainard; James Bullard; Susan M. Collins; Lisa D. Cook; Esther L. George; Philip N. Jefferson; Loretta J. Mester; and Christopher J. Waller.

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. Main

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