

DAILY POINTS

September 21, 2022 @ 7:05 EST

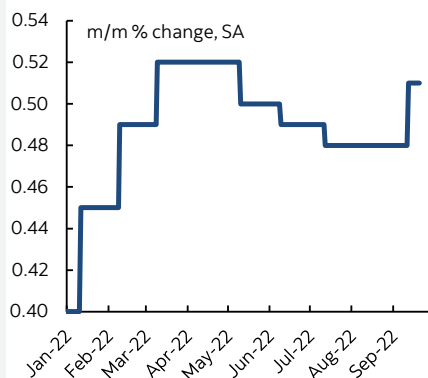
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Chart 1

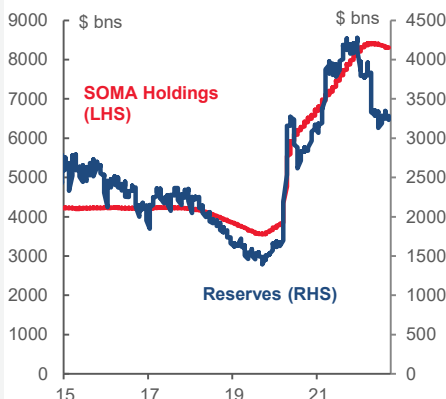
Cleveland Fed Core CPI Nowcast



Sources: Scotiabank Economics, Cleveland Fed.

Chart 2

Tumbling Reserves



Sources: Scotiabank Economics, Bloomberg.

On Deck for Wednesday, September 21

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09-21	07:00	MBA Mortgage Applications (w/w)	Sep 16	--	--	-1.2
US	09-21	10:00	Existing Home Sales (mn a.r.)	Aug	4.6	4.7	4.8
US	09-21	10:00	Existing Home Sales (m/m)	Aug	-4.4	-2.3	-5.9
US	09-21	14:00	FOMC Interest Rate Meeting (%)	Sep 21	3.25	3.25	2.50
US	09-21	14:30	Powell Holds Press Conference Following FOMC Meeting				

KEY POINTS:

- **Markets await the Fed**
- **FOMC expectations**
- **September looks set to repeat August's US core CPI surge...**
- **...which could keep the Fed in mega-hike territory at its next November meeting**
- **Lying, desperate Putin lights up oil prices**
- **US home resales likely fell again**
- **Brazil's CB expected to hold**

Being Fed day, it's likely best to treat most market moves in advance of the communications as something that's likely transitory and the same often holds for the post-announcement reaction. Scroll back to see yesterday afternoon's post that outlined expectations which I won't repeat here but will include in the fuller morning note. Otherwise, there were very few fresh developments overnight.

One is that oil prices are about \$2 higher per barrel on Putin's maniacal threats to call up more troops and use "all means" to defend Russia's territory including twisted lies about the west's nuclear threats he countered with his own.

Two is that the PBoC set a higher yuan fix again and once again it had no effect as the currency continued to depreciate.

Three is that the rand gained a bit in the wake of slightly firmer than expected headline inflation at 0.2% m/m (0.1% consensus) even as core CPI slowed (0.2%, 0.3% consensus).

Things not called the Fed will include US home resales for August (10amET) that will likely decline again given falling pending home sales, plus another decision by Brazil's central bank (5pmET) that most expect to hold its Selic rate at 13.75% but with a minority called for +25bps.

FOMC EXPECTATIONS

Ahead of the Fed, check out chart 1 that demonstrates how the Cleveland Fed's 'nowcast' is showing that core CPI is poised to repeat the August shocker when September's print lands next month on October 13th. That will be the last CPI reading followed by the core PCE print before the Fed's next decision on November 2nd which could keep them in mega-hike territory.

The September FOMC meeting often sends a chill down the spines of market participants. It's the first policy decision since July 27th. Here's a summary of expectations for the full suite of communications that start with the statement and Summary of Economic Projections including the 'dot plot' (2pmET) and conclude with Chair Powell's press conference (2:30pmET). Also see the Global Week Ahead's section on the Fed ([here](#)).

1. Hike 75bps to 3.25%. It's priced, plus a few. That would get the rate into mildly restrictive territory if one adheres to the FOMC's 2-3% range for the neutral rate (I think it has gone up).

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2. 50bps would chump out. That could ease financial conditions unless it's accompanied by more hawkish forward guidance than markets have priced. In that case, why not just hike by more now? Further, the FOMC isn't prepared to ease financial conditions now. Hiking less than priced for this meeting could see participants pile into subsequent contracts to tamp down future moves or remove them if the FOMC didn't have conviction to go more than 50 now when it's priced.
3. 100bps is a fatter but still thin-tailed possibility imo. The FOMC has been loathe to shock markets on game day. They're big on setting up moves even if just two days in advance through awkward means. There is a case for 100+ but it would definitely be out of keeping with the Fed's micromanagement of game day moves.
4. Besides, the FOMC participants did not intimate there was much optionality into this meeting when 75bps was priced before the blackout even before we get the inflation shocker last week.
5. On the dots, they are more useful perhaps in the shorter run than in terms of anything they say further out. They will likely signal 4%+ this year. 5% next year and head for the hills, 25–50 lower is more likely. Don't look for cut signals next year. The addition of 2025 is getting some attention mainly in terms of whether they signal a continuation of restrictive rates, but I don't know why anyone would pay much serious attention to that. Cut signals would ease fin conditions now which they're not prepared to see and which would run counter to the goal of getting inflation under control. Sorry, Fed's not riding to rescue equities this time as argued all year long as the whole point of the exercise that we keep forgetting about is tighten monetary policy—tighten financial conditions including risk asset pricing—damage demand—weak inflation. The dots are one part what they think and what part how they wish to manage things.
6. Nothing new is expected on balance sheet signals in either the statement or presser. Powell said before the blackout that they have no interest in inducing scarce reserves and that the system has permanently changed. That said, the speed with which reserves are tumbling toward some estimates of this cycle's higher floor suggest that a few months of the current peak roll-off rate in the SOMA portfolio will make this a more likely conversation starting into early next year imo (chart 2). We'll find out how far reserves can be pushed and how quickly by accident, maybe like everything else they're doing...
7. Some think the RRP counterparty cap could rise.
8. Forecasts have to revise down GDP growth, revise up the UR and revise up core PCE. Charts were in the week ahead. I don't expect changes to their longer-run guideposts for any of those. Recession signals are also not expected. One luxury the SEP enjoys is that they only publish annual Q4/Q4 growth, not the paths between. In other words, buried in between could be implied contractions but it'd be hard to tell. Powell will likely avoid the 'r' word and revert to prior language about how the path to a soft landing has narrowed....really narrowed imo.... Now, if he says recession is more likely and they have faster, sooner hikes then it'd be taken as an ugly signal to the risk trade that they're a.o.k. with that and even view it as necessary, which they may well.

Fixed Income	Government Yield Curves (%):												Central Banks	
U.S. CANADA GERMANY JAPAN U.K.	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Canada - BoC	3.25
	3.96	3.97	3.79	3.73	3.75	3.60	3.54	3.56	3.41	3.55	3.57	3.46		
	3.76	3.76	3.76	3.29	3.31	3.32	3.09	3.10	3.16	3.01	3.02	3.09		
	1.74	1.71	1.42	1.83	1.82	1.58	1.90	1.93	1.72	1.88	1.92	1.75		
U.S.	-0.05	-0.07	-0.07	0.07	0.06	0.05	0.26	0.26	0.26	1.32	1.33	1.20	US - Fed	2.50
U.K.	3.38	3.33	3.09	3.37	3.31	3.07	3.32	3.29	3.13	3.61	3.59	3.43	England - BoE	1.75
CANADA GERMANY JAPAN U.K.	Spreads vs. U.S. (bps):												Euro zone - ECB	1.25
	-20	-20	-4	-44	-44	-28	-46	-46	-25	-54	-55	-36		
	-222	-225	-237	-190	-192	-203	-164	-164	-169	-167	-165	-171		
	-402	-403	-386	-366	-369	-355	-328	-331	-315	-222	-225	-226		
	-58	-64	-70	-36	-44	-53	-22	-27	-27	6	2	-3		
Equities	Level						% change:						Mexico - Banxico	8.50
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change					1 Day	1-wk	1-mo	1-yr	Australia - RBA	2.35		
	19369	-193.7					-1.0	-1.8	-3.7	-4.3				
	30706	-313.5					-1.0	-1.3	-8.9	-9.5				
	3856	-44.0					-1.1	-2.0	-8.8	-11.4				
	11425	-110.0					-1.0	-1.8	-10.1	-22.5				
	12669	-2.3					-0.0	-2.8	-6.5	-17.5				
	7244	51.6					0.7	-1.9	-4.1	3.8				
	27313	-375.3					-1.4	-4.5	-5.6	-8.5				
	18445	-336.8					-1.8	-2.1	-6.7	-23.9				
	5991	11.5					0.2	-3.7	-7.8	-8.6				
Commodities	Level						% change:						New Zealand - RBNZ	3.00
WTI Crude	86.34	2.40					2.9	-2.4	-4.9	22.4				
Natural Gas	7.97	0.25					3.3	-12.6	-14.6	65.8				
Gold	1674.10	9.22					0.6	-1.4	-4.2	-5.7				
Silver	19.32	0.32					1.7	-3.1	0.4	-13.8				
CRB Index	279.54	-0.24					-0.1	-2.2	-4.3	28.0				
Currencies	Level						% change:							
USDCAD	1.3370	0.0005					0.0	1.6	2.4	4.3				
EURUSD	0.9920	-0.0051					-0.5	-0.6	-0.2	-15.4				
USDJPY	144.02	0.2700					0.2	0.7	4.8	31.9				
AUDUSD	0.6671	-0.0018					-0.3	-1.1	-3.0	-7.7				
GBPUSD	1.1340	-0.0041					-0.4	-1.7	-3.6	-17.0				
USDCHF	0.9638	-0.0003					-0.0	0.2	-0.1	4.4				
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	Level						% change:						Mexico - Banxico	Sep 29, 2022
	1.3370	0.0005					0.0	1.6	2.4	4.3	Australia - RBA	Oct 03, 2022		
	0.9920	-0.0051					-0.5	-0.6	-0.2	-15.4	New Zealand - RBNZ	Oct 04, 2022		
	144.02	0.2700					0.2	0.7	4.8	31.9				
AUDUSD	0.6671	-0.0018					-0.3	-1.1	-3.0	-7.7				
GBPUSD	1.1340	-0.0041					-0.4	-1.7	-3.6	-17.0				
USDCHF	0.9638	-0.0003					-0.0	0.2	-0.1	4.4				

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