



COMMENTS ON YESTERDAY'S FEDFUNDS HIKE

The main theme ahead of the Fed announcement was that Chair Jerome Powell would definitely, totally, absolutely push back against the recent rapid easing in market conditions given inflation was still sky high.

Powell seemed to go out of his way to do the opposite. The very first question in the news conference invited him to scold markets, and he notes conditions had tightened a lot last year.

Given another opportunity, he says he's "not particularly concerned" about market pricing, and later "I'm not going to try to persuade people that have a different forecast" on inflation and policy.

Yes there were caveats about it being too early to declare victory and policy will need to be more restrictive. But even then he was blase about another "couple of hikes", and spent more time trying out his new favourite word "disinflation".

Treasuries rallied, with 10s down 9bp and 2s 10bp in the wake of the conference and a bit more in Asia. Next targets are the Jan lows at 3.321% and 4.04%.

Fed funds partied by pricing in more rate cuts with Fed funds seen at 4.40% by end 2023 and 3.0% by the close of 2024.

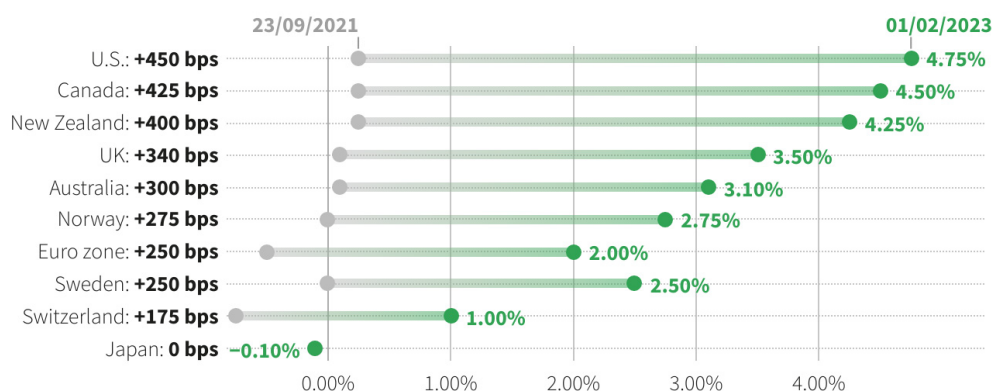
The euro jumped to a 10-month peak of \$1.1034 and could go further if ECB chief Christine Lagarde sounds as hawkish as everyone seems to expect after today's policy meeting.

The market is almost fully priced for a hike of 50bp and the promise of more to come, though it was notable that Euribor rallied overnight to imply deeper cuts next year.

The ECB is also set to reveal how exactly it plans to reduce the multi-trillion euro stock of bonds on its balance sheet.

The race to raise rates

Change in policy rates by central banks overseeing the 10 most traded currencies since the start of the interest rate tightening cycle in September 2021.



Source: Refinitiv Datastream | Reuters, Feb. 1, 2023 |



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