

Morning Market Tidbits

The Fed hasn't forgotten how to jawbone the markets

Key takeaways

- The recent rise in borrowing rates has caught the attention of the Fed and raises the likelihood of a November pause.
- Headline PPI likely rose by 0.2% m/m in September, which would be a moderation from August.
- We will be interested in commentary around the economic outlook in the September FOMC minutes.

In focus

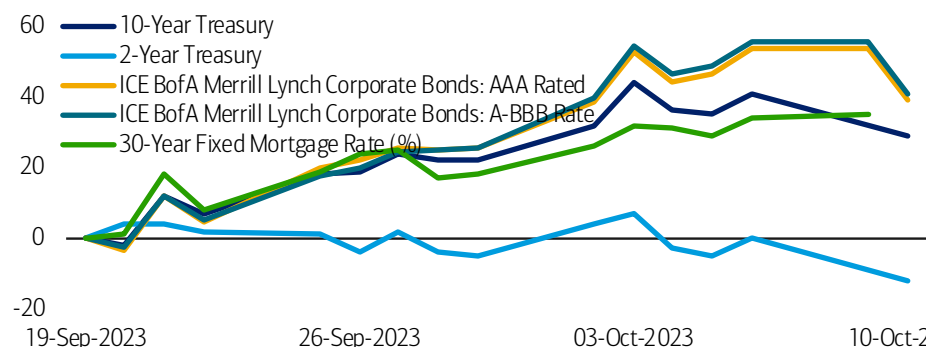
The recent rise in Treasury yields has caught the attention of Fed participants. Since the end of the Fed's September meeting, yields on 10-year Treasuries have climbed by 41bp, with mortgage rates and Corporate Bond yields increasing in parallel (Exhibit 1). The rise in mortgages and corporate yields is one way in which monetary policy is transmitted to the broader economy as higher borrowing rates affect consumption and investment decisions. In short, the recent steepening of the yield curve has tightened financial conditions and, if sustained, puts downward pressure on aggregate demand.

Several members of the Fed have suggested that these recent moves are likely to factor into the near-term decisions around monetary policy. San Francisco Fed President Daly was one of the most explicit, noting that the rise in bond yields is roughly equal to one additional rate hike. In addition to Daly's remarks, Dallas Fed President Logan, Vice Chair Jefferson, Atlanta Fed President Bostic, and Minneapolis Fed President Kashkari all commented on the recent moves in rates markets. All generally acknowledged that the recent moves in borrowing rates could reduce the need for further additional tightening.

(Continued on next page)

Exhibit 1: Change in interest rates since the September Fed meeting (bps)

Interest rates have risen significantly since the conclusion of the September Fed meeting



Source: Haver Analytics, BofA Global Research

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Economics
United States

US Economics
BofAS

Aditya Bhawe
US Economist
BofAS
+1 646 855 9929
aditya.bhawe@bofa.com

Shruti Mishra
US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

[See Team Page for List of Analysts](#)

BEA: Bureau of Economic Analysis

FOMC: Federal Open Market Committee

GDI: Gross Domestic Income

GDP: Gross Domestic Product

QT: Quantitative Tightening

YCC: Yield Curve Control

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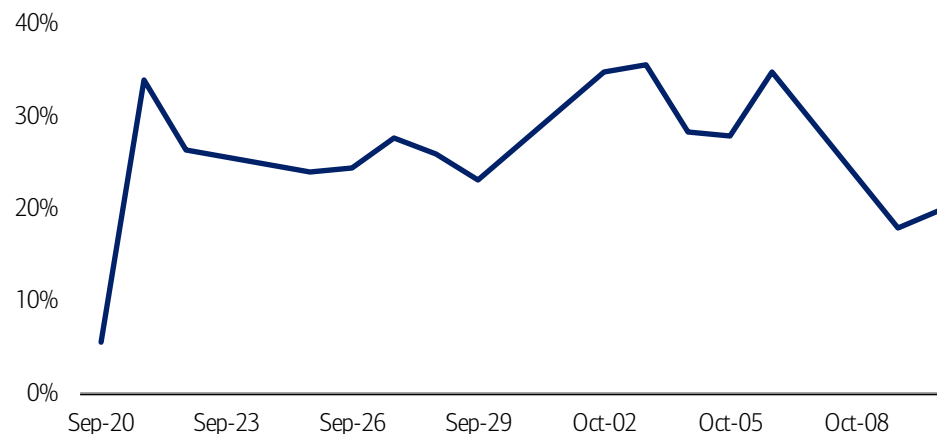
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Timestamp: 11 October 2023 08:22AM EDT

This level of jawboning from members of the Fed has nudged down market pricing for a November rate hike. After the better-than-expected jobs report pushed the likelihood of a November hike up to 35%, market pricing has fallen to just 20% to start the week (Exhibit 2). The Fed remains data dependent, and therefore, this Thursday's data (CPI and retail sales) could be another catalyst for market pricing. However, the recent moves in financial conditions could play a larger role than the data in determining the November policy decision.

Exhibit 2: Market pricing for a 25bp hike at the November meeting (%)

Recent commentary from Fed participants has led to markets pricing in less of a chance of a hike in November



Source: Bloomberg, BofA Global Research

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Market action

The Asian equity markets that we cover closed positive overnight. Looking at individual markets, we note that the Shanghai Composite was up 0.1%, the Indian Sensex, and the Nikkei added 0.6% each, while the Hang Seng and the Korean Kospi rose 1.3% and 2.0%, respectively.

As of 7:00 am ET, aggregate European stocks are up 0.3%, and S&P 500 futures are up 0.3%. In the bond markets, 10-year Treasury yields are down 9bp to 4.56%, and German Bund yields are down 6bp to 2.72%. The dollar index is flat at \$105.82. West Texas Intermediate (WTI) crude oil prices are down \$0.66 to \$85.31/barrel, and gold prices are at \$1,871.79/ounce.

Data previews

Data in the week ahead

PPI, FOMC Meeting Minutes

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
10/11/23	7:00	MBA Mortgage Applications	Oct 6	—	—	-6.0%
10/11/23	8:30	Producer Price Index (mom)	Sep	0.2%	0.3%	0.7%
10/11/23	8:30	PPI Ex Food & Energy (mom)	Sep	0.3%	0.2%	0.2%
10/11/23	8:30	PPI Ex Food, Energy, Trade (mom)	Sep	0.3%	0.2%	0.3%
10/11/23	14:00	FOMC Meeting Minutes	Sep			

Source: Bloomberg, BofA Global Research

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Producer Price Index (PPI)

Headline PPI likely rose by 0.2% m/m in September, which would be a moderation from August but roughly in line with the trailing three-month average. Should our forecast prove correct, it would result in the y/y rate ticking down a tenth to 1.5% y/y. Excluding food and energy, we look for core PPI to advance by 0.3% m/m and core-core PPI (excluding food, energy, and trade services) to also increase by 0.3%.

FOMC Meeting Minutes

The biggest surprise of the September FOMC meeting was the evolution of the Summary of Economic Projections (SEP). The dot plot was hawkish, but the Fed's economic forecasts were remarkably sanguine. There was almost no change to the inflation path despite significant upward revisions to growth, which now barely falls below trend and downward revisions to the unemployment rate. We view this as a "no landing" forecast.

We will be interested in commentary around the economic outlook in the September minutes. What are the factors that have made the Fed more optimistic about avoiding not just a recession but even a significant economic slowdown? And how much agreement was there on the committee about these factors?

We will also be focused on any commentary around the level of neutral rates. Several participants raised their longer run-rate forecasts, even though the longer-run median did not change. And the 2026 median dot was above the longer-run median, even though the economic forecasts for 2026 were in line with the longer-run forecasts. In our view, all of this suggests that the FOMC is gradually coming around to the view that the neutral rate has risen, at least modestly

US GDP Tracking

Exhibit 3: BofA US GDP tracking estimate (% q/q saar)

Our 3Q US GDP tracker increased to 3.8% q/q saar on the back of slightly higher-than-expected state and local employment in September, including huge upward revisions to July and August, slightly offset by weaker-than-expected payrolls of residential remodelers, implying less residential investment

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
10/2/23	Construction Spending	3.6	3.2	3.4	2.8	5.5	8.1	4.3	0.1	8.3	2.5	-899.8	20.0
10/4/23	Vehicle Sales, Factory Orders	3.6	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.3	2.5	-899.8	17.3
10/5/23	Trade Balance	3.6	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.4	2.6	-899.6	17.3
10/5/23	UAW Strike Add Factor	3.7	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.4	2.6	-899.6	17.8
10/6/23	Payrolls	3.8	3.4	3.5	2.6	5.5	8.5	4.3	1.0	8.4	2.6	-899.6	17.8
	GDP tracking	3.8	3.4	3.5	2.6	5.5	8.5	4.3	1.0	8.4	2.6	-899.6	17.8
	Contribution to GDP growth (pp)			2.3	0.1	0.2	0.4	0.2	0.2			0.6	-0.2
	BofA official GDP forecast	2.0	2.0	2.0	2.5	5.0	6.0	4.0	0.5	3.0	3.5	-937.0	9.0

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates. saar = seasonally adjusted annual rate.

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Overseas Data

Euro Area

The ECB (European Central Bank) consumer survey showed median inflation expectations 3 years ahead rising from 2.4% to 2.5%. BofA Global Research Europe economists note that this is a small increase, leaving expectations still in line with pre-Covid values. This being is driven by the first quintile of the income distribution suggests that energy prices may be responsible.



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Research Analysts

US Economics

Michael Gapen

US Economist

BofAS

michael.gapen@bofa.com

Aditya Bhawe

US Economist

BofAS

aditya.bhawe@bofa.com

Stephen Juneau

US Economist

BofAS

stephen.juneau@bofa.com

Jeseo Park

US Economist

BofAS

jeseo.park@bofa.com