# Trade Idea: Receive December 2022 FOMC Swap

## Market View:

We anticipate a dovish shift in the Federal Reserve's policy stance due to emerging economic indicators suggesting a slowdown in growth and inflationary pressures. The recent decline in retail sales and manufacturing output, combined with moderating inflation data, supports our view that the Fed will adopt a more accommodative stance in the upcoming FOMC meeting.

## Trade Rationale:

Given our outlook for a dovish Fed, we recommend receiving the December 2022 FOMC swap. This trade allows us to capitalize on the expected decline in short-term rates as the market adjusts its expectations for future Fed rate hikes.

## Implications for Rates Markets:

1. Lower Short-Term Rates: As the Fed signals a pause or potential rate cut, we expect a downward adjustment in short-term interest rates. The December 2022 FOMC swap will benefit from this shift, as the floating leg payments linked to the Fed Funds rate will likely decrease.

2. Flattening Yield Curve: A dovish Fed can also lead to a flattening of the yield curve as short-term rates drop more significantly than long-term rates. This environment is favorable for our position as it increases the attractiveness of receiving swaps tied to near-term FOMC meetings.

## Trade Structure:

- Receive Leg: Fed Funds rate for December 2022  
- Pay Leg: Fixed rate agreed upon at the contract's initiation  
- Notional Amount: As per client’s risk appetite  
- Tenor: From the December 2022 FOMC meeting to the January 2023 meeting

## Expected Outcome:

By receiving the December 2022 FOMC swap, we position ourselves to profit from the anticipated decline in short-term rates. The market's recalibration of Fed expectations should result in lower floating rate payments, thereby enhancing the trade's overall return.

## Chart:

The attached chart illustrates the recent trend in the Fed Funds futures market, highlighting the declining expectations for rate hikes. This trend supports our view of a more accommodative Fed policy stance in the near term.

## Conclusion:

Receiving the December 2022 FOMC swap is a strategic trade aligned with our dovish Fed outlook. It offers a favorable risk-reward profile by leveraging expected movements in short-term rates. We recommend this trade for clients looking to capitalize on potential monetary policy shifts in the upcoming FOMC meeting.