

Macro Roundup Article

Headline: [Financial Market Conditions During Monetary Tightening](#)

Article Link: <https://www.frbsf.org/economic-research/publications/economic-letter/2023/february/financial-market-conditions-during-monetary-tightening/>

Author(s)	Simon Kwan and Louis Liu
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Tweet: According to @sffed, the pace of the current tightening cycle has been unprecedented, and the magnitude of the tightening cycle ranks second in the postwar era (as proxied by the increase in the 10-year Treasury rate), with possibly more to run.

Summary: The current increase in the 10-year Treasury rate is the second largest increase of all tightening cycles, shown by the blue bars. Moreover, the green bars show that the speed of this increase has been unprecedented. Current increases in the federal funds rate are expected to reverse a historically large negative real funds rate gap at the beginning of the cycle. We compute the real funds rate gap by subtracting the inflation rate and the real neutral rate from the nominal federal funds rate. The smaller or more negative the real funds rate gap is, the more monetary accommodation is in the economy. Successfully closing the real funds rate gap will hinge on substantially reducing the inflation rate.

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Primary Topic: Inflation

Topics: GDP, Government/NGO, Graph, Inflation, Monetary Policy, Sell-by Date

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