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Macro Roundup Article

Headline: The Fed Is Tightening More Than It Says

Article Link: https://www.barrons.com/articles/the-fed-is-tightening-more-than-it-says-19ffb096?mod

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Tweet: QT is tightening monetary policy more than the Fed realizes; under the current trajectory, @BennSteil estimates that the policy rate is 5.76%, after adjusting for the balance sheet shrinkage, relative to its headline of 5.38%.

Summary: The figure shows the path through time of two interest rates. The lower line shows the path of the Fed's policy rate going back to April 2022, and its projected path forward over the coming two years. The upper line shows what we call the "QT-equivalent policy rate," which accounts for the effect of QT. The QT-equivalent rate is the policy rate needed without QT to have an effect on financial conditions equivalent to that produced by the actual policy rate with QT. What we find is that today's policy rate of 5.375% is, under the current QT roll-off schedule, having roughly the same impact on financial conditions as a policy rate of 5.763% without QT. That's a gap of 39bps, or 39 hundreds of a percent. But the effect of QT rises sharply going forward, as $95 billion in assets continue to roll off the balance sheet each month, before reaching a high of 100 basis points—or one full percent—in May 2025.

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