WELLS FARGO

Weekly — September 23, 2022

# Weekly Economic & Financial Commentary

**United States: Whatever It Takes**

- As widely expected, the FOMC raised the target range for the fed funds rate by 75 bps for the third consecutive time. The housing market continues to buckle under the pressure of higher mortgage rates, while the Leading Economic Index has signaled a broader loss of momentum across the economy.
- Next week: Durable Goods (Tue), Consumer Confidence (Tue), Personal Income & Spending (Fri)

**International: Bank of Japan's Policy Actions Offset Each Other**

- Aside from the Fed, the central bank that caught the attention of market participants this week was the Bank of Japan (BoJ). As expected, the BoJ left monetary policy settings unchanged; however, the communication around the decision was widely interpreted as dovish.
- Next week: Central Bank Speakers (Mon-Fri), China PMIs (Thu), Eurozone Inflation (Fri)

**Interest Rate Watch: Aggressive Fed Path Boosts Inflation-Fighting Credibility**

- The FOMC delivered its third straight 75 bps hike and a hawkish message for rates going forward at its meeting this week. The FOMC now sees it likely the fed funds target range will rise to 4.4% by the of this year and 4.6% by the end of next year as inflation is expected to be more intractable than previously believed.

**Credit Market Insights: Reading the Pulse of the Corporate Bond Market**

- The Federal Reserve Bank of New York's Corporate Bond Market Distress Index (CMDI) tracks corporate bond market functioning using a variety of metrics from the market at large, including the investment grade and high yield markets. The latest release of the CMDI indicated that the corporate bond market was in good health through August.

**Topic of the Week: Shot Across the Bow, Japan Intervenes Against Surging Dollar**

- On Thursday, in a surprise move Japan's Ministry of Finance intervened in FX markets to strengthen the yen for the first time since 1998. The beleaguered yen has declined over 20% against the dollar this year, briefly hitting a 24-year low of JPY145.89 on Thursday after BoJ policymakers signaled they plan to keep monetary policy settings accommodative.

**Wells Fargo U.S. Economic Forecast**

| | Actual | | Forecast | | | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | 2023 | | | | 2021 | 2022 | 2023 | 2024 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product [1] | -1.6 | -0.6 | 3.5 | 0.4 | -0.7 | -2.3 | -1.9 | 2.9 | 5.7 | 1.9 | -0.2 | 1.7 |
| Personal Consumption | 1.8 | 1.5 | 1.8 | 0.5 | -1.0 | -1.1 | -0.4 | 0.8 | 7.9 | 2.4 | -0.1 | 1.3 |
| Consumer Price Index [2] | 8.0 | 8.6 | 8.0 | 6.7 | 5.2 | 3.0 | 2.4 | 2.4 | 4.7 | 7.8 | 3.2 | 2.3 |
| "Core" Consumer Price Index [2] | 6.3 | 6.0 | 6.1 | 5.7 | 5.0 | 4.1 | 3.4 | 3.0 | 3.6 | 6.0 | 3.8 | 2.7 |
| Quarter-End Interest Rates [3] | | | | | | | | | | | | |
| Federal Funds Target Rate | 0.50 | 1.75 | 3.25 | 4.00 | 4.25 | 4.25 | 4.00 | 3.50 | 0.25 | 2.38 | 4.00 | 2.63 |
| Conventional Mortgage Rate | 4.42 | 5.81 | 5.65 | 5.70 | 5.60 | 5.40 | 5.10 | 4.90 | 2.95 | 5.40 | 5.25 | 4.68 |
| 10 Year Note | 2.32 | 2.98 | 3.25 | 3.35 | 3.30 | 3.15 | 2.90 | 2.80 | 1.45 | 2.98 | 3.04 | 2.75 |

Forecast as of: September 09, 2022
[1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change [3] Annual Numbers Represent Average

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

Please see our full U.S. Economic Forecast and our updated Pressure Gauge.

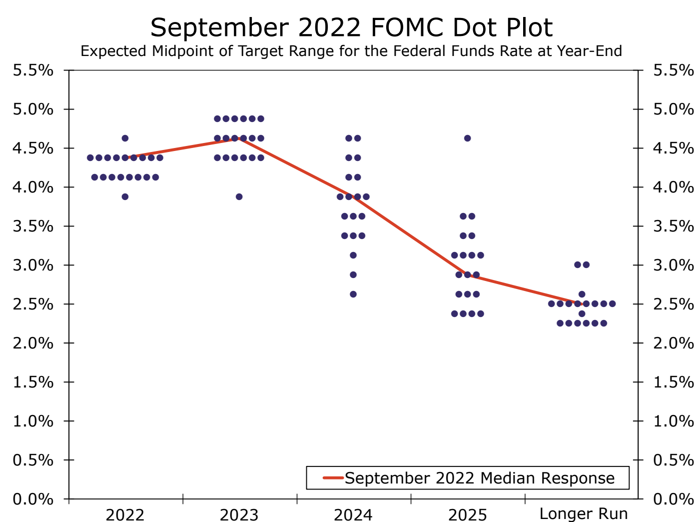
## U.S. Review

### Whatever It Takes

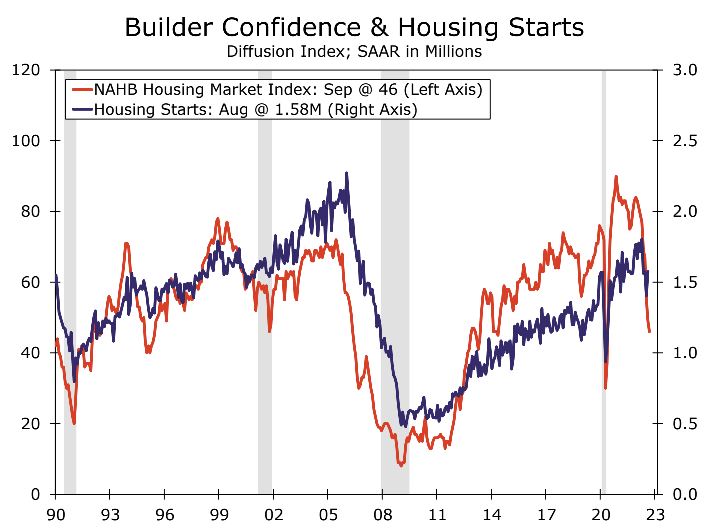
Wednesday's FOMC rate decision was the headline economic news this week. As widely expected, the Committee raised the target range for the fed funds rate by 75 bps for the third consecutive time. Updated forecasts were released as well, with inflation expected to remain well above the Fed's 2% target for longer than previously published in June. As such, the median projection for the year-end fed funds rate rose a full percentage point (pp) for 2022 and increased 0.8pp for 2023. Real GDP growth projections were also slashed for this year and next, while unemployment is expected to be higher. On balance, the meeting underpinned the FOMC's firm commitment to do whatever it takes to bring inflation back down to earth. See Interest Rate Watch for more detail.

The rapid rise in the fed funds rate (the upper bound sits at 3.25%) has put pressure on interest-rate sensitive sectors. Housing, in particular, has faltered as mortgage rates have climbed. The NAHB/Wells Fargo Housing Market Index (HMI), a measurement of home builder sentiment, slid three points to 46 in September—the ninth straight monthly decline. Notably, an HMI reading below 50 indicates that more builders report conditions as "poor" than those who see conditions as "good."

The skid in builder sentiment mirrors the trend decline in home construction. Total housing starts surprised to the upside in August, increasing 12.2% over the month. Single-family starts rose 3.4% and multifamily starts increased 28%. Improving supply chain conditions likely increased building material availability during the month, allowing builders to move forward with projects already in the pipeline. Meanwhile, building permits, a forward-looking indicator that leads housing starts by a couple of months, plummeted 10% in August. The drop in permits reflects the ongoing trend of builders tapping the brakes on construction in response to weaker demand and rising financing costs.




Source: Federal Reserve Board and Wells Fargo Economics




Source: National Association of Home Builders, U.S. Department of Commerce and Wells Fargo Economics

Existing home sales declined for the seventh consecutive month in August, falling 0.4% to a 4.8 million-unit annual pace. While sales fell, the consensus called for a greater decline and the better-than-expected outturn likely reflects buyers locking in on slightly lower mortgage rates. According to Freddie Mac, the average commitment rate on a 30-year fixed-rate mortgage was 5.2% in August, down from 5.4% in July. Mortgage rates have ascended since then, averaging 6.3% in the week ending September 22. The marked rise is likely to further dampen home sales in the coming months.

Beyond housing, the Leading Economic Index (LEI) has signaled a broader loss of momentum across the economy. The LEI decreased 0.3% in August, pushing the six-month average change to -0.46%, below the historical recession threshold of -0.4%. We have been calling for a recession in 2023 for a few months now, and our latest forecast projects a mild recession starting in Q1-2023. The fall in the LEI this year, which is also incorporated in our updated Probit models, supports that recession call. (Return to Summary)

## U.S. Outlook

| Weekly Domestic Indicator Forecasts | | | | | |
|---|---|---|---|---|---|
| **Date** | **Indicator** | **Period** | **Consensus** | **Wells Fargo** | **Prior** |
| 27-Sep | Durable Goods Orders (MoM) | Aug | -0.1% | -1.4% | -0.1% |
| 27-Sep | Consumer Confidence | Sep | 104.3 | 103.6 | 103.2 |
| 27-Sep | New Home Sales (SAAR) | Aug | 500K | 522K | 511K |
| 30-Sep | Personal Income (MoM) | Aug | 0.3% | 0.3% | 0.2% |
| 30-Sep | Personal Spending (MoM) | Aug | 0.2% | 0.3% | 0.1% |
| 30-Sep | PCE Deflator (YoY) | Aug | 6.0% | 6.1% | 6.3% |
| 30-Sep | Core PCE Deflator (YoY) | Aug | 4.7% | 4.8% | 4.6% |

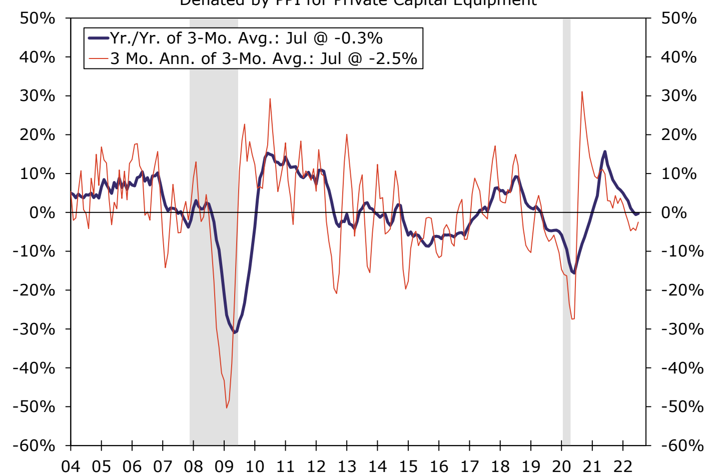
Forecast as of September 23, 2022

Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Durable Goods Orders • Tuesday

Most measures of manufacturing activity suggest the sector is losing momentum. Industrial production fell 0.2% in August, with manufacturing output up just 0.1%. But even as the need to fulfill some backlog may keep manufacturing modestly afloat, new demand is stumbling. The ISM manufacturing new orders index has been teetering between expansion and contraction the past three months, and adjusting core capital goods orders for the run up in the prices of private capital equipment puts real orders down at a 2.5% average annualized pace over the past three months.

We expect this weakness extended into August and look for overall durable goods orders to decline 1.4% during the month. This decline will, however, be due largely to a pullback in transportation orders, with only a relatively modest increase in orders for Boeing aircraft last month. Excluding transportation, we expect orders rose 0.3%. Still, inflation will likely weigh further on these estimates, with the Producer Price Index for private equipment up 0.5% in August. The nondefense capital goods shipments component, which feeds directly into equipment spending in the GDP accounts, will give us the latest indication of how cap-ex spending is holding up through the third quarter.

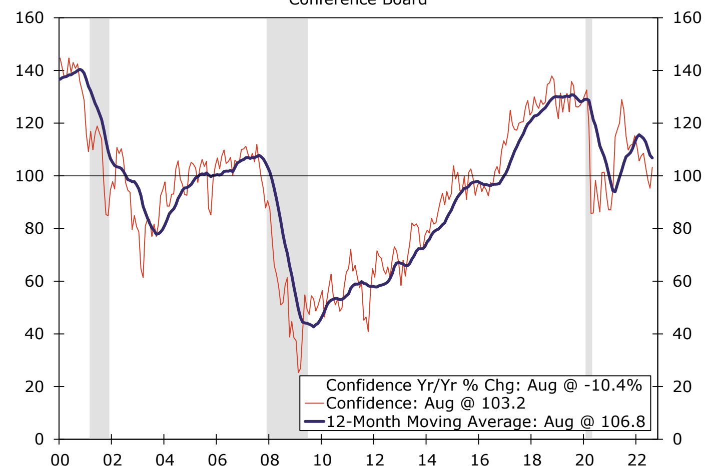



Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

### Consumer Confidence • Tuesday

Consumer confidence has buckled amid high inflation and increased economic uncertainty. While those two concerns have not disappeared, we are looking for a modest improvement in September and expect consumer confidence rose modestly to 103.6 from 103.2 previously.

The preliminary read from the University of Michigan on consumer sentiment showed a modest gain in part due to falling gas prices. While the two surveys do not always move together, we expect lower prices at the pump also helped boost the Conference Board's measure of confidence last month. That said, the state of the labor market is of much more interest for the confidence survey. Most measures of the labor market have shown some signs of topping out, with job openings and hiring plans moving sideways in recent months, and the share of consumers who view jobs as plentiful, which comes from the confidence survey, also rolling over. That said, at 48% in August, there remains a historically high number of consumers who view the labor market favorably. The recent uptick in headlines of companies planning to or thinking of reducing head counts and volatility in financial markets likely continued to exert downward pressure on confidence in September.

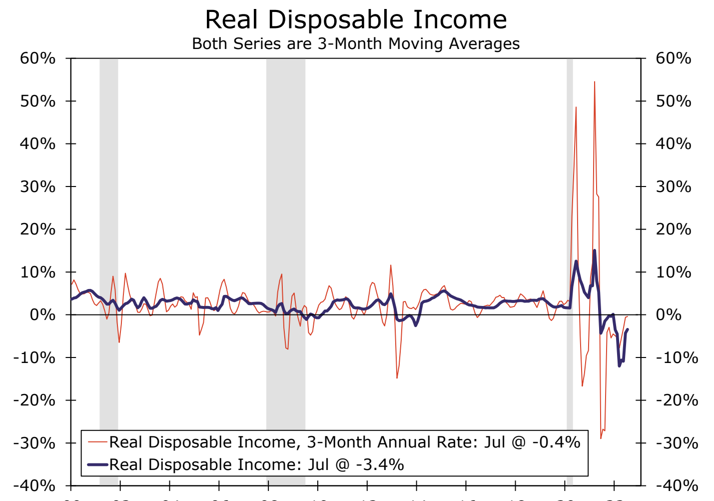



Source: The Conference Board and Wells Fargo Economics

## Personal Income & Spending • Friday

The easing of inflation in July caused real disposable personal income to rise at the fastest rate in twelve months. After that sizable gain, we are looking for a more muted but still positive increase of 0.1% in real disposable personal income in August as consumers continue to somewhat feel some modest reprieve from elevated inflation.

Consumers have increasingly relied on their balance sheets to fund spending in the high-inflation environment, so we'll be paying particularly close attention to the detailed spending estimates to see how renewed growth in purchasing power may be affecting spending. Households have transitioned spending habits back toward normal, by spending incrementally less on goods and more on services, but only gradually so. Goods spending has been a bit sticky, and there still remains an outsized portion of typical wallet share dedicated toward goods purchases today. Overall, we expect continued yet moderate growth in spending and forecast real spending was also up 0.1% last month. The August retail sales data suggest goods spending held up during the month, though our inflation-adjusted estimate for control group sales points to weakening goods spending in Q3. We estimate the lone services category, food services or restaurant sales, rose 0.2% when adjusted for inflation. (Return to Summary)

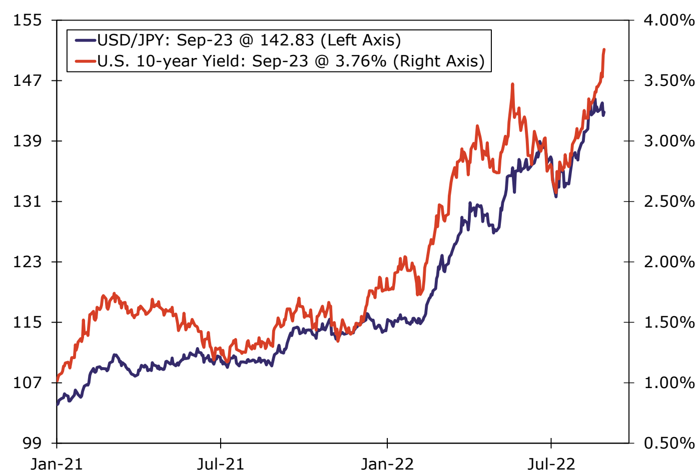



Source: U.S. Department of Commerce and Wells Fargo Economics

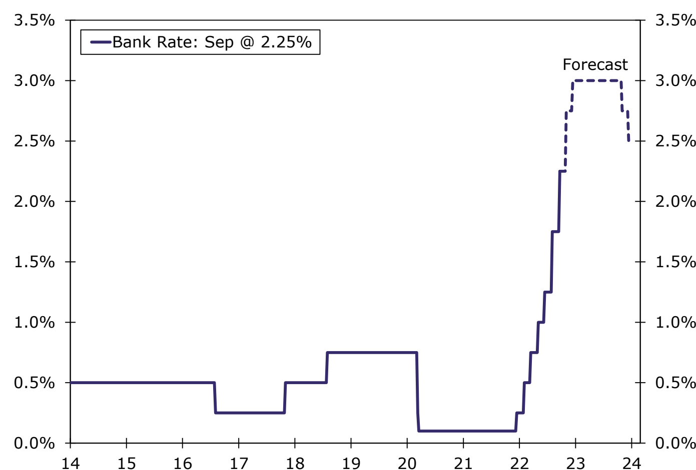
# International Review

## Bank of Japan's Policy Actions Offset Each Other

Heading into this week, the schedule was unusually packed with a myriad of central bank meetings. Not only did the Fed host its September assessment of monetary policy, but many other G10 institutions as well as policymakers across the emerging markets met to determine monetary policy for their respective economies. Aside from the Fed, the central bank that caught the attention of market participants this week was the Bank of Japan (BoJ). As expected, the BoJ left monetary policy settings unchanged; however, the communication around the decision was widely interpreted as dovish. In his commentary, Governor Kuroda suggested that rate hikes may not materialize for two or three years, and that the existing yield curve control policy is unlikely to change for the time being. Kuroda's justification for accommodative monetary policy comes from uninspiring local growth and inflation dynamics. With the Fed raising interest rates and the BoJ on hold, diverging paths for monetary policy should continue to place depreciation pressure on the yen. We do, however, acknowledge that Japan's Ministry of Finance took action this week by intervening in FX markets for the first time since the 1990s in an effort to support the yen (see Topic of the Week). The immediate reaction to the intervention announcement facilitated a rally in the Japanese currency and brought the yen back from record low levels against the dollar. However, we view BoJ intervention as only a temporary respite for the yen, and view intervention as more of a trade rather than the beginning of a long-term appreciation trend for the currency. In our view, as long as the paths for monetary policy between the Fed and BoJ continue to diverge and interest rate differentials widen, the yen should continue to weaken and retest its all-time lows in the near future.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

## BoE Hikes; Brazil and Turkey Go Against the Grain

The Bank of England (BoE) also met this week when policymakers lifted interest rates another 50 bps and took its base rate to 2.25%, while also delivering a couple of surprises. To that point, BoE policymakers updated their economic forecasts with their latest inflation projection. According to the BoE, new Prime Minister Truss' policy to cap household energy prices should bring inflation lower in the coming months. The central bank's forecast suggests inflation should now peak lower than previously expected, which in our view, should at least offer some assistance to the Bank of England in its fight against inflation. Even so, the decision to increase interest rates by "only" 50 bps was finely balanced, with three policymakers voting in favor of a larger 75 bps increase. The Bank of England also noted the government would announce fiscal support following its monetary policy announcement, which it would take into account at upcoming meetings. As far as fiscal stimulus, the government announced series of tax cuts and regulatory reforms that will cost £161 billion over the next five years. Against this backdrop, we now expect the Bank of England to hike its policy rate by a larger 75 bps at its next meeting in November. Still, we believe this larger rate hike will prove to be a one-off. As the U.K. economic slowdown crystallizes and inflation peaks, we expect the BoE to revert to a 50 bps increase in December and deliver a final 25 bps rate increase at its first meeting in 2023, which would

see the policy rate peak at 3.75%. Even this faster pace of tightening would still lag the rate of increase from the Federal Reserve, and fall short of Bank of England tightening priced by financial markets—participants anticipate a policy rate peak closer to 5.50%. Accordingly, as the Bank of England “under delivers” relative to these expectations, we expect downward pressure on the British pound to persist.

Outside the G10, multiple emerging market central banks met this week; however, we choose to focus on just two: the Brazilian Central Bank (BCB) and the Central Bank of Turkey. As far as the Brazilian Central Bank, policymakers decided to keep policy settings unchanged; however, we viewed this decision as still having hawkish undertones. In the BCB's official statement, policymakers comment they will “be vigilant” and that they “will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected.” While the BCB's tightening cycle is paused for now, the tone of the statement leads us to believe the door is still open for potential rate hikes, especially if core inflation does not exhibit signs of trending lower. In our view, the BCB tightening cycle is likely over; however, we believe the timing of rate cuts could be pushed back into Q2-2023. Regardless of the timing for rate cuts, keeping monetary policy steady for the next few quarters now puts the trajectory of BCB monetary policy directly at odds with the path of Fed monetary policy. In our view, diverging paths for monetary policy, in addition to election-related risks, should also place depreciation pressure on the Brazilian real over the next few quarters. The same can be said for the Central Bank of Turkey, although Turkish monetary authorities opted for *cutting* interest rates 100 bps despite local inflation trending above 80% year-over-year. We can reduce the decision to lower interest rates as President Erdogan influencing monetary policy decisions and implementing his unorthodox view that lower interest rates leads to lower inflation (a view that is widely unaccepted). (Return to Summary)

## International Outlook

| Weekly International Indicator Forecasts | | | | | |
|---|---|---|---|---|---|
| **Date** | **Indicator** | **Period** | **Consensus** | **Wells Fargo** | **Prior** |
| 29-Sep | China Manufacturing PMI | Sep | 49.4 | -- | 49.4 |
| 29-Sep | China Services PMI | Sep | 52.6 | -- | 52.6 |
| 30-Sep | Eurozone CPI | Sep | 9.7% | -- | 9.1% |

Forecast as of September 23, 2022

Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Central Bank Speakers • Monday-Friday

This week's central bank bonanza will be followed up by a slew of policymaker speech's and commentary. Next week, not only will Fed speakers have a chance to comment on the FOMC's actions, but central bankers from around the world will also have a chance to address recent policy actions and provide more context around interest rate decisions. We will have ECB speakers, including Christine Lagarde, lined up for most of the week, while Bank of England policymakers are also scheduled to speak at multiple events.

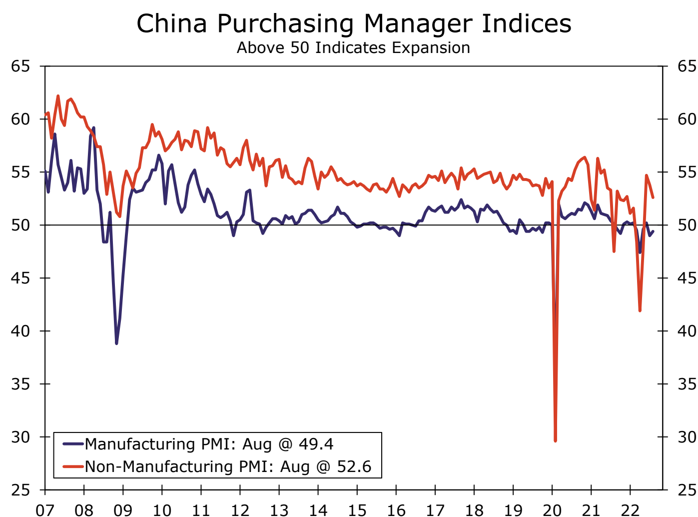
Given the sheer amount of interest rate hikes and monetary policy actions this week, markets may be keenly focused on any additional context policymakers may provide. Fed speakers will surely get the most attention; however, ECB policymakers will garner a fair amount of eyeballs from market participants. ECB commentary should give markets insight into whether the European Central Bank can keep pace with the Fed and whether the euro will continue to trend below parity. Regardless, we believe the U.S. dollar will continue to grind higher as the Fed marches on with rate hikes, and leads the charge on monetary policy. Next week, we would expect Fed speakers to reinforce the message that containing inflation is the priority.

Source: Bloomberg Finance L.P. and Wells Fargo Economics

## China Official PMIs • Thursday

Next week we will get new evidence as to the evolution and health of China's economy when the manufacturing and services PMIs are released. September data should provide insight into whether COVID-related lockdowns had a significant impact on the economy, and if China's growth outlook will deteriorate further over the remainder of this year and possibly into 2023.

Consensus estimates suggest the manufacturing PMI is likely to remain in contraction territory, while the services PMI should barely hold onto expansion territory. As far as the services sector, the PMI is currently at 52.6, comfortably in expansion territory. However, with lockdowns emerging in Chengdu this month, we would not be surprised to see a material leg lower in the non-manufacturing PMI as opportunity for consumer spending was lower for most of the month. Right now, we forecast annual GDP growth in China of just 3%; however, we would note risks to our forecast are tilted to the downside. Over the next few months, we could revise our forecast lower and project China's economy to grow sub 3% this year.

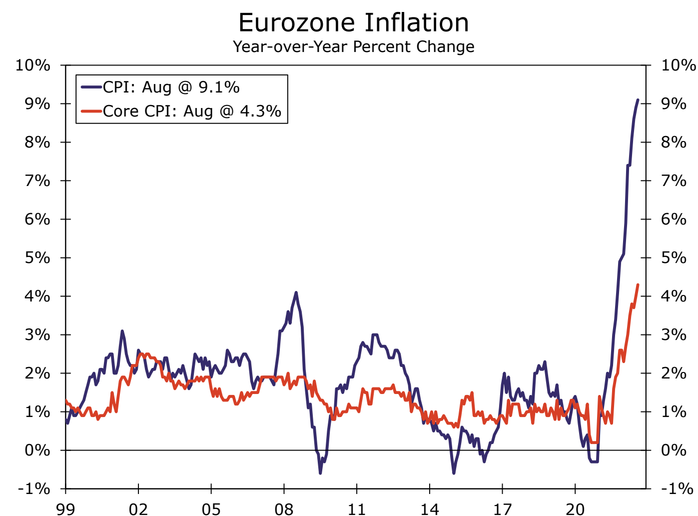


Source: Bloomberg Finance L.P. and Wells Fargo Economics

## Eurozone Inflation • Friday

September CPI data for the Eurozone will be released next week, where consensus economists believe inflation could trend close to 10% year-over-year. With energy prices still elevated and the euro depreciation trend unrelenting, we agree that inflation is likely to firm across the Eurozone when data are released toward the end of next week. We also believe elevated inflation will continue to prompt ECB monetary tightening, and that policymakers will maintain their hawkish stance on interest rates in an effort to contain inflation expectations.

High inflation and central bank tightening have brought the Eurozone economy to the brink of recession. In fact, in our view, we believe the Eurozone economy will enter recession by the end of this year as consumer spending slows considerably. Recessionary conditions are likely already in place in Germany, and as Russia continues to restrict gas flows to the region, many other EU countries should also exhibit signs on recession in the coming months. (Return to Summary)



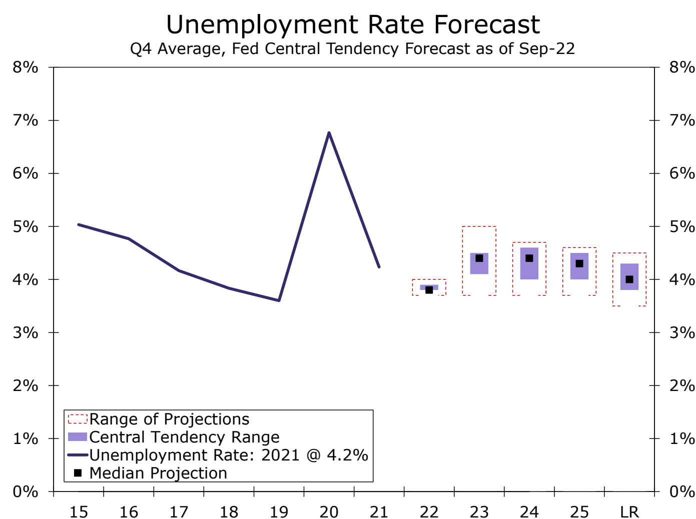
Source: Bloomberg Finance L.P. and Wells Fargo Economics

## Interest Rate Watch

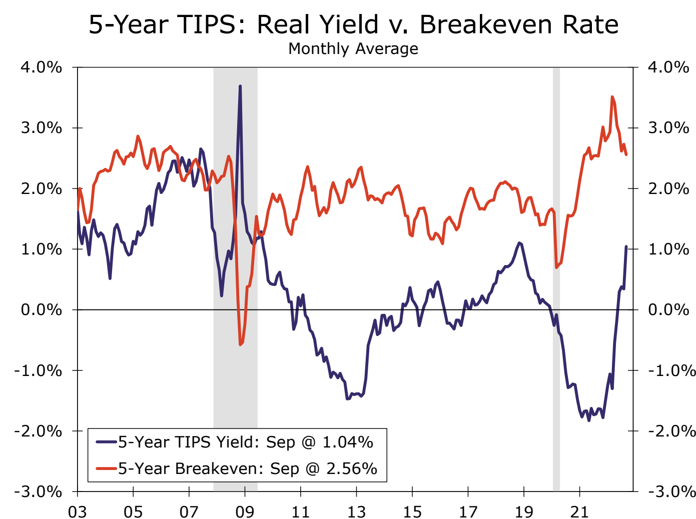
### Aggressive Fed Path Boosts Inflation-Fighting Credibility

As discussed in our International Review, it was a packed week for central bank meetings. However, the FOMC meeting in the United States was hard to knock out of the limelight. On Wednesday, the FOMC delivered its third straight 75 bps hike to bring the fed funds target range to 3.00-3.25%. The jumbo move was expected, but brought with it a hawkish message via the Committee's updated Summary of Economic Projections (SEP). The FOMC sees the fed fund funds rate likely rising an additional 125 bps before the year is out. With only two meetings left, the projections imply another 75 bps hike is very much on the table at its next meeting on November 2. However, in one of Chair Powell's few dovish moments in the post-meeting press conference, he highlighted that the FOMC was closely split on this accord, with only one more participant penciling in 125 bps than 100 bps of tightening this year.

Nevertheless, it was clear the Committee widely agrees that in order to bring inflation to heel, a significantly tighter stance of policy will be required through this year and next. The median estimate for the fed funds rate at the end of 2023 rose to 4.6% from 3.8% in the June SEP. Inflation is expected to slow ahead, but still remain above 3% by the end of next year in a sign Fed officials view inflation as having become more entrenched.



Source: U.S. Department of Labor, Federal Reserve Board and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

With inflation proving more intractable, Fed officials have conceded that a recession looks increasingly difficult, albeit not impossible, to avoid. Estimates for real GDP growth next year were revised lower and, with a median of 1.2%, are more clearly below the economy's potential growth rate. More telling of the "pain" higher rates are likely to inflict on the economy was the upward adjustment to unemployment rate projections in 2023. The median estimate among participants rose to 4.4%, which would be nearly a percentage point above the low of the current cycle (chart). An increase of that magnitude would be rare outside a recession.

Between the ever-more hawkish tone of FOMC officials since late this summer and the surprisingly strong core reading on consumer price inflation last Tuesday, the Treasury market was already braced for significantly further Fed tightening. Rates across the curve have moved up meaningfully in recent weeks, with a further rise across all but the very shortest part of the curve since the FOMC's meeting on Wednesday. Notably, the upward moves in rates appear to be driven by expectations of the Fed's more aggressive policy path, rather than the belief that inflation is becoming more unwieldy. Breakeven inflation rates have been little changed in recent weeks and are generally consistent with 2% PCE inflation. Instead, the upward move in rates across the Treasury curve have been driven by a rise in *real* rates and signal the FOMC's inflation-fighting credibility is intact (chart). (Return to Summary)

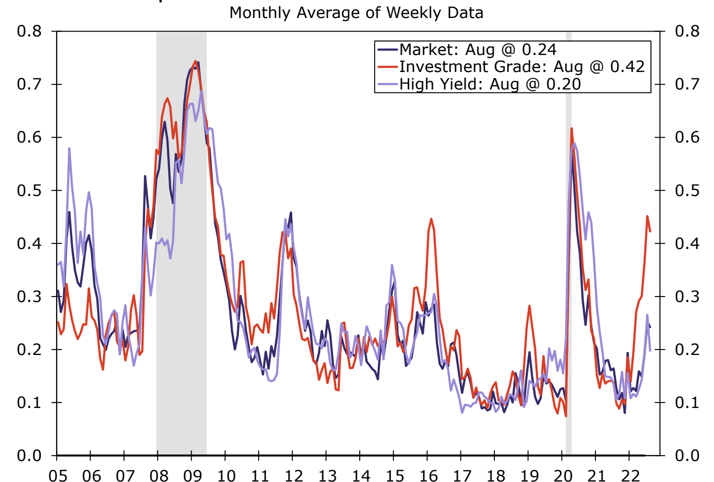
## Credit Market Insights

### Reading the Pulse of the Corporate Bond Market

The Federal Reserve Bank of New York issued their first release of the new Corporate Bond Market Distress Index (CMDI) in June. The index tracks corporate bond market functioning using a variety of metrics from the market at large, including the investment grade and high yield markets. Data are pulled from the Mergent Fixed Income Securities Database to track the primary market and the Financial Industry Regulatory Authority's Trade Reporting and Compliance Engine (TRACE) to track the secondary market. Specifically, the index tracks seven major aspects of market functioning: primary market volumes, primary market pricing, secondary market volumes, secondary market liquidity, secondary market pricing, secondary market default-adjusted pricing and quoted pricing on non-traded bonds. Distress in the market is identified and quantified using a "preponderance of metrics" approach. This approach designates distress when a majority of the aforementioned seven aspects of functioning (specifically their exponential moving averages weighted with time-varying correlation weights) signal distress. In utilizing this approach, the index is better able to avoid over-identifying periods of distress that may be skewed due to outliers in individual metrics. A CMDI reading of 0.7 or greater indicates periods of severe market distress. The only time this was previously recorded was during the Great Financial Crisis in 2008-09.

### The Vitals are Strong (Currently)

The latest release of the CMDI indicated that the corporate bond market was in good health through August. For the week ending on August 26, the index registered a reading of 0.22 for the overall market. The high yield bond market registered a relatively low reading of 0.19, while the investment grade bond market registered a modest reading of 0.39. For context, since 2005 (earliest available data), these readings rank the overall market at its 15th percentile, the high yield market at its 14th percentile and the investment grade market at its 21st percentile. The index has recently been declining across markets after its rapid rise at the start of the year from 2021 lows. Corporate borrowers may be more hesitant to take on debt now as financial conditions have considerably tightened on the heels of the FOMC raising the fed funds rate another 75 bps to an upper bound of 3.25%. Investor appetite for this debt may be waning, however, as yields on high grade corporate debt have risen to a high of 5.24%, the highest average yield in 13 years. Fortune may favor the bold, but it most certainly does not favor high interest rates: no companies were looking to sell debt on Wednesday prior to the FOMC announcement. A cautious outlook for the corporate bond market appears to be appropriate as of this writing.



Source: Federal Reserve Bank of New York and Wells Fargo Economics

### CMDI Outlook

The CMDI is slated as a monthly release of weekly data, coming out on the last Wednesday of every month. This upcoming Wednesday will mark the third release of the indicator and shed light on the health of the corporate bond market in the current macroeconomic environment of historically high inflation and rising interest rates. The CMDI has historically risen to high levels during the two officially declared recessions of the last two decades. Given our recent forecast calls for a modest recession beginning in early 2023, we will be monitoring this release for signs of deterioration similar to those present for previous prolonged periods of economic contraction. (Return to Summary)

## Topic of the Week

### Shot Across the Bow, Japan Intervenes Against Surging Dollar

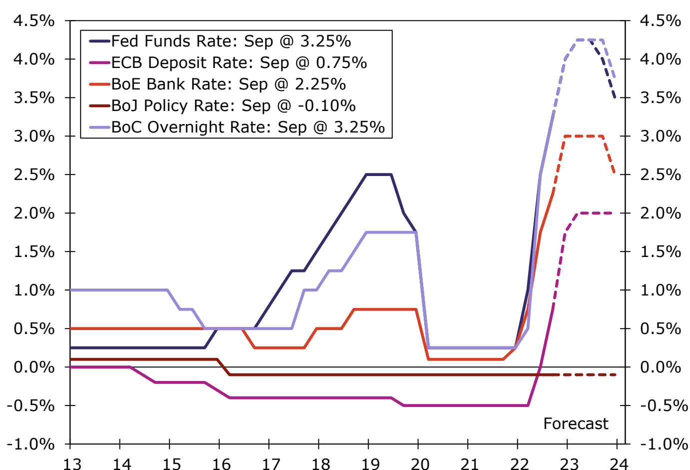
On Thursday in a surprise move, Japan's Ministry of Finance intervened in FX markets to strengthen the yen for the first time since 1998. The beleaguered yen has declined over 20% against the dollar this year, briefly hitting a 24-year low of JPY145.89 on Thursday after BoJ policymakers signaled they plan to keep monetary policy settings accommodative. The intervention has helped stem the bleeding; however, we do not expect this intervention to spur a long-term rally for the yen as divergent central bank paths between the Fed and BoJ should continue to weigh on the yen.

The BoJ has been an outlier in the monetary policy space, electing to keep its policy rate in negative territory at -0.10% and committing to keep yields around 0% in an effort to stoke growth and inflation. This is in sharp contrast to the Fed, which delivered its third super-sized rate hike in a row this Wednesday and signaled an additional 125 bps in hikes at the two remaining meetings of this year. The Fed's dot plot communicated policymakers expect to hold rates well above neutral through at least 2024 in its campaign to quell inflation. In contrast, Governor Kuroda of the BoJ pledged to keep policy accommodative for the next two to three years to achieve the aforementioned goals of improving inflation and growth dynamics.

The yen is among a host of currencies in a predicament at the moment. The dollar has experienced relentless strength over the past year with the Fed's aggressive rate hikes speeding past other central banks. The dollar's strength has been broad-based as the greenback has appreciated against every G10 currency since mid-2021. The Bank of England (BoE) earlier this week announced a less aggressive 50 bps rise in the bank rate, a move that comes as the pound has fallen to a 37-year low against the dollar. As the Fed maintains its hawkish stance on monetary policy, and as recession risks rise abroad, we believe the dollar's fortunes are likely to continue at least through the end of this year. We believe the depreciation trend G10 currencies have experienced is likely to persist for the next few months.

Japan's Ministry of Finance announced the government is taking "bold action" to support the yen, but the actual scale of the intervention was not communicated. Without knowing the finer details, Japanese authorities' overall strategy is still a bit of a mystery at the moment. On one hand, the goal may be to not halt yen weakness but simply smooth out the upward move and cushion the yen against further sharp depreciation. On the other hand, keeping monetary policy settings accommodative and insisting on sustaining "yield curve control" should continue to place depreciation pressure on the Japanese currency.

A reversal in the yen's favor is a bit of a pipe dream at the moment as the BoJ's current monetary policy does not exactly create a unified front for the yen. Rate differentials have driven much of the yen's weakness, and with the BoJ not intending to change policy settings anytime soon, a sustained yen intervention campaign would likely prove ineffective at turning things around. A weaker yen does have its upsides as it would support Japan's export sector and the broader economy, leading to higher inflation as well. As such, yen intervention is somewhat at odds with the BoJ's own policies and goals. A path for a policy pivot is not impossible as inflation quickened to 2.8% in August, the highest in eight years and above the BoJ's target. However, even with inflation dynamics improving, Thursday's BoJ meeting did not indicate this has meaningfully swayed the central bank's strategy. (Return to Summary)




Source: Bloomberg Finance L.P. and Wells Fargo Economics

## Market Data • Mid-Day Friday

### U.S. Interest Rates

| | Friday 9/23/2022 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| SOFR | 2.99 | 2.28 | 0.05 |
| 3-Month LIBOR | 3.64 | 3.53 | 0.13 |
| 3-Month T-Bill | 3.17 | 3.09 | 0.02 |
| 1-Year Treasury | 3.99 | 3.80 | 0.05 |
| 2-Year Treasury | 4.19 | 3.87 | 0.26 |
| 5-Year Treasury | 3.99 | 3.63 | 0.95 |
| 10-Year Treasury | 3.73 | 3.45 | 1.43 |
| 30-Year Treasury | 3.64 | 3.51 | 1.94 |
| Bond Buyer Index | 3.89 | 3.81 | 2.15 |

### Foreign Exchange Rates

| | Friday 9/23/2022 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| Euro ($/€) | 0.972 | 1.002 | 1.174 |
| British Pound ($/£) | 1.092 | 1.142 | 1.372 |
| British Pound (£/€) | 0.890 | 0.877 | 0.856 |
| Japanese Yen (¥/$) | 143.230 | 142.920 | 110.330 |
| Canadian Dollar (C$/$) | 1.358 | 1.326 | 1.266 |
| Swiss Franc (CHF/$) | 0.982 | 0.965 | 0.924 |
| Australian Dollar (US$/A$) | 0.654 | 0.672 | 0.730 |
| Mexican Peso (MXN/$) | 20.159 | 20.037 | 20.048 |
| Chinese Yuan (CNY/$) | 7.128 | 6.987 | 6.459 |
| Indian Rupee (INR/$) | 80.991 | 79.745 | 73.640 |
| Brazilian Real (BRL/$) | 5.236 | 5.250 | 5.304 |
| U.S. Dollar Index | 112.741 | 109.764 | 93.085 |

Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Foreign Interest Rates

| | Friday 9/23/2022 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| 3-Month Euro LIBOR | -0.58 | -0.59 | -0.57 |
| 3-Month Sterling LIBOR | 2.91 | 2.74 | 0.07 |
| 3-Month Canada Banker's Acceptance | 4.13 | 4.07 | 0.45 |
| 3-Month Yen LIBOR | -0.02 | -0.02 | -0.07 |
| 2-Year German | 1.92 | 1.53 | -0.69 |
| 2-Year U.K. | 3.95 | 3.14 | 0.39 |
| 2-Year Canadian | 3.75 | 3.79 | 0.48 |
| 2-Year Japanese | -0.07 | -0.07 | -0.12 |
| 10-Year German | 2.03 | 1.76 | -0.26 |
| 10-Year U.K. | 3.79 | 3.14 | 0.91 |
| 10-Year Canadian | 3.09 | 3.14 | 1.35 |
| 10-Year Japanese | 0.24 | 0.26 | 0.04 |

### Commodity Prices

| | Friday 9/23/2022 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| WTI Crude ($/Barrel) | 78.75 | 85.11 | 73.30 |
| Brent Crude ($/Barrel) | 86.13 | 91.35 | 77.25 |
| Gold ($/Ounce) | 1645.70 | 1675.06 | 1742.76 |
| Hot-Rolled Steel ($/S.Ton) | 772.00 | 797.00 | 1870.00 |
| Copper (¢/Pound) | 335.95 | 354.30 | 423.05 |
| Soybeans ($/Bushel) | 14.62 | 14.89 | 12.68 |
| Natural Gas ($/MMBTU) | 6.84 | 7.76 | 4.98 |
| Nickel ($/Metric Ton) | 24,482 | 23,096 | 19,235 |
| CRB Spot Inds. | 578.49 | 583.54 | 618.85 |

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