Strategy

JefMacro Weekly—Tightening Tremors; Rumors of USD Rally's Demise Exaggerated

September 25, 2022

Key Takeaway

Aneta is lifting her terminal rate forecast to 5.1%. She expects to still reach by Feb with two 75bp hikes in Nov, Dec, and a 50bp in Feb. GREED & fear sees the BoJ's policy as an outlier, has crushed the yen, forcing BoJ to intervene in the currency market. A much more sensible approach would simply be to adjust monetary policy. Brad sees no stopping the dollar's strength, giving us levels like 0.90 in the EUR/USD, 1.05 in GBP/USD, DXY 115.00 or BBDXY 1400.

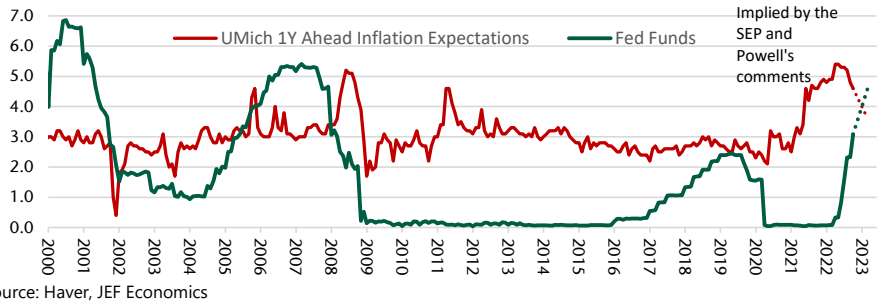
GREED & fear—Another reminder of the outlying nature of the BoJ's policy with core CPI in August coming in at a 31-year high. There was no change in policy at the BoJ meeting, crushing the yen, which is why Japan intervened to support the currency. A more sensible and straightforward approach would simply be to adjust the monetary policy.

Aneta Markowska—The FOMC revealed a much more hawkish reaction function than many, including us, expected. Even though the median dots converged to our base case of a 4.6% terminal rate, the Fed is willing to get there even if growth is muted in 2H, and even if inflation slows to 3%. We see upside risk to both of these assumptions, which in turn creates further upside for rates. We are lifting terminal rate to 5.1%. **We still expect to reach it by February, with two 75bp hikes in Nov and Dec, and a 50bp in Feb.**

Sherif Hamid—A lot of hawkishness is priced into the rates markets, sentiment is pretty awful, and valuations are getting to levels that start to look attractive on all-in yields and prices even if we do continue to roll into downturn. We do think the risk of the Fed breaking something has gone up, and a "hard landing" should be our base case. We don't think our markets are a good short, given valuations along with pretty terrible sentiment, and we think duration is a long, but we would sell sharp rallies in risk should they come.

Brad Bechtel—It's easy to anticipate further USD strength. Levels like 0.90 in the EUR/USD, 1.05 in GBP/USD, DXY 115.00 and BBDXY at 1400 are in the cards. Countries that have stable current accounts & high real yields are likely to be shielded from the USD wrecking ball, but other currencies will continue to feel the stress of the USD rally.

Fed Funds vs. Inflation Expectations



Source: Haver, JEF Economics

JefMacro

The JefMacro Weekly is the accumulation of this week's best Macro research.

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^Prior trading day closing price unless otherwise noted.

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