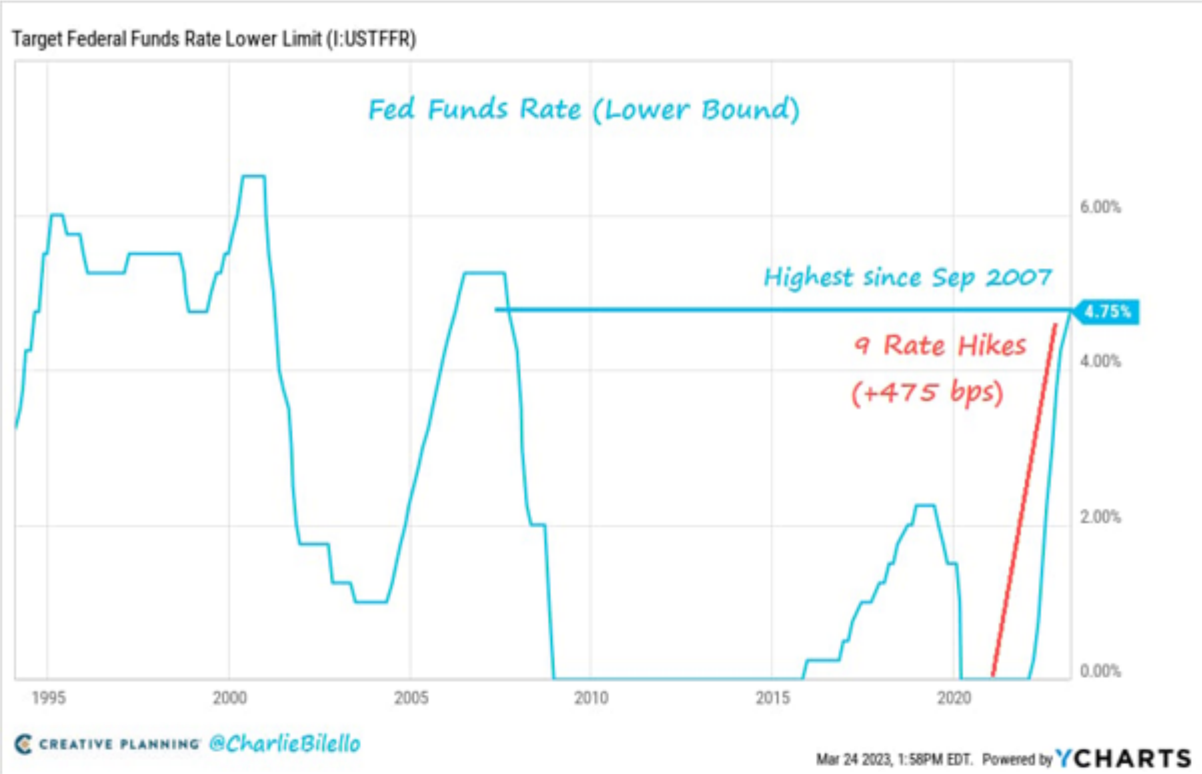
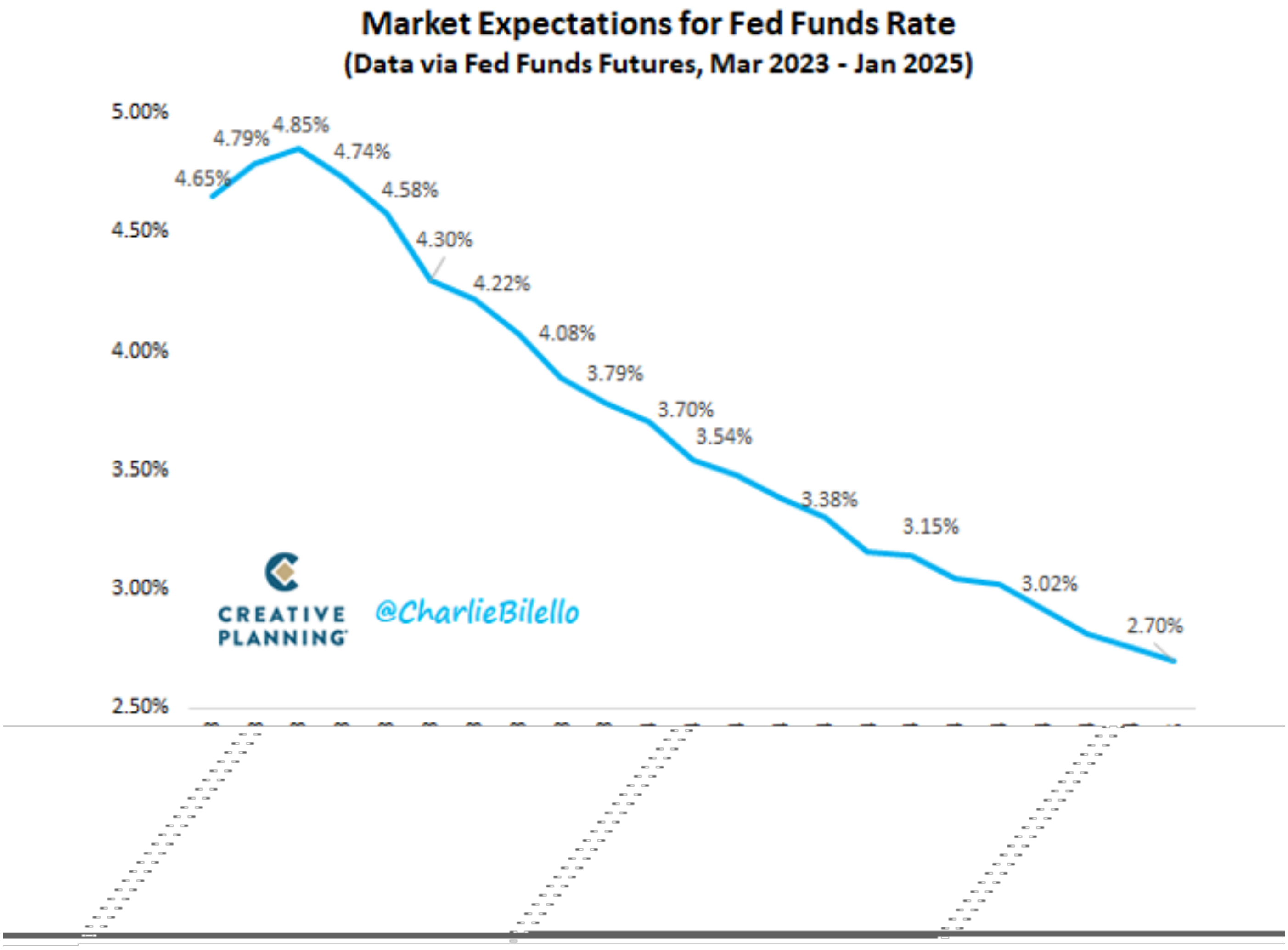
1) The Last Hike?

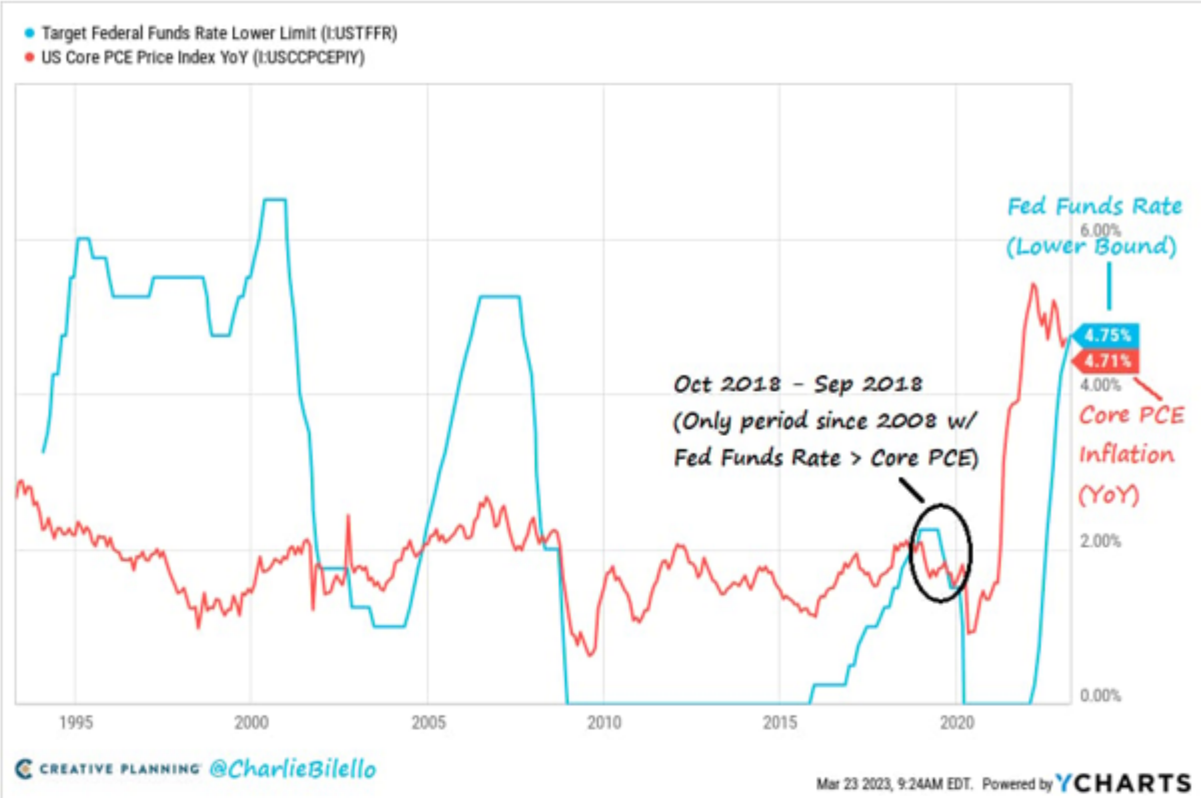
As widely expected, the Fed hiked rates by another 25 bps last week, the 9th rate hike since last March. That brought the Fed Funds Rate up to a new range of 4.75-5.00%, a level we haven't seen since September 2007.



All of the focus, though, was on the dovish shift in language from the Fed. Most notably, they removed the text signaling "ongoing increases" in the Fed Funds Rate and replaced it with "some additional policy firming ***may* be appropriate**." Additionally, they argued that the fallout from the recent bank failures would likely "result in tighter credit conditions."

This is an interesting graph based on market expectations. Remember this is a market that did not see the hikes coming as well….


Market Expectations for Fed Funds Rate
(Data via Fed Funds Futures, Mar 2023 - Jan 2025)
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
4.65%
4.79%
4.85%
4.74%
4.58%
4.30%
4.22%
4.08%
3.79%
3.70%
3.54%
3.38%
3.15%
3.02%
2.70%
CREATIVE PLANNING
@CharlieBilello

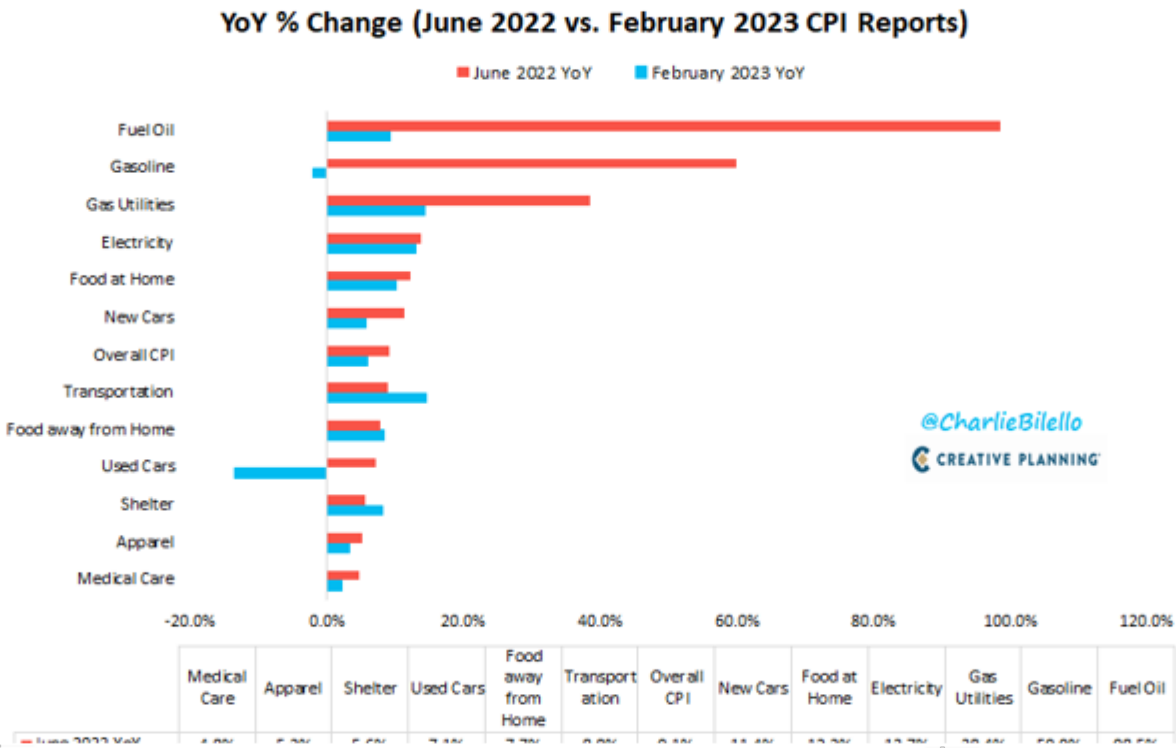


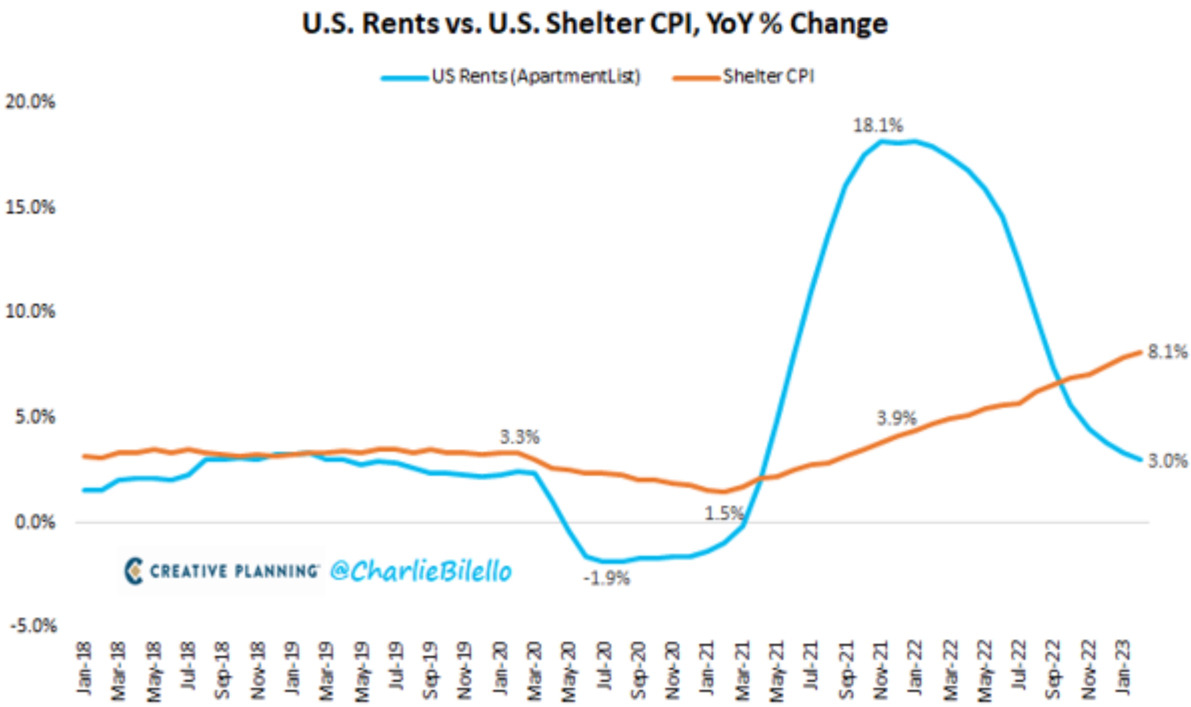
While the Fed Funds Rate remains below overall inflation (CPI), that will likely change in the coming months. February's 6.0% CPI reading was the 8th consecutive decline in the YoY rate of inflation and the lowest level since September 2021. All signs are pointing to a another big move lower in March.

Inflation has been the key driver of the interest rate increases that is why they are so important.

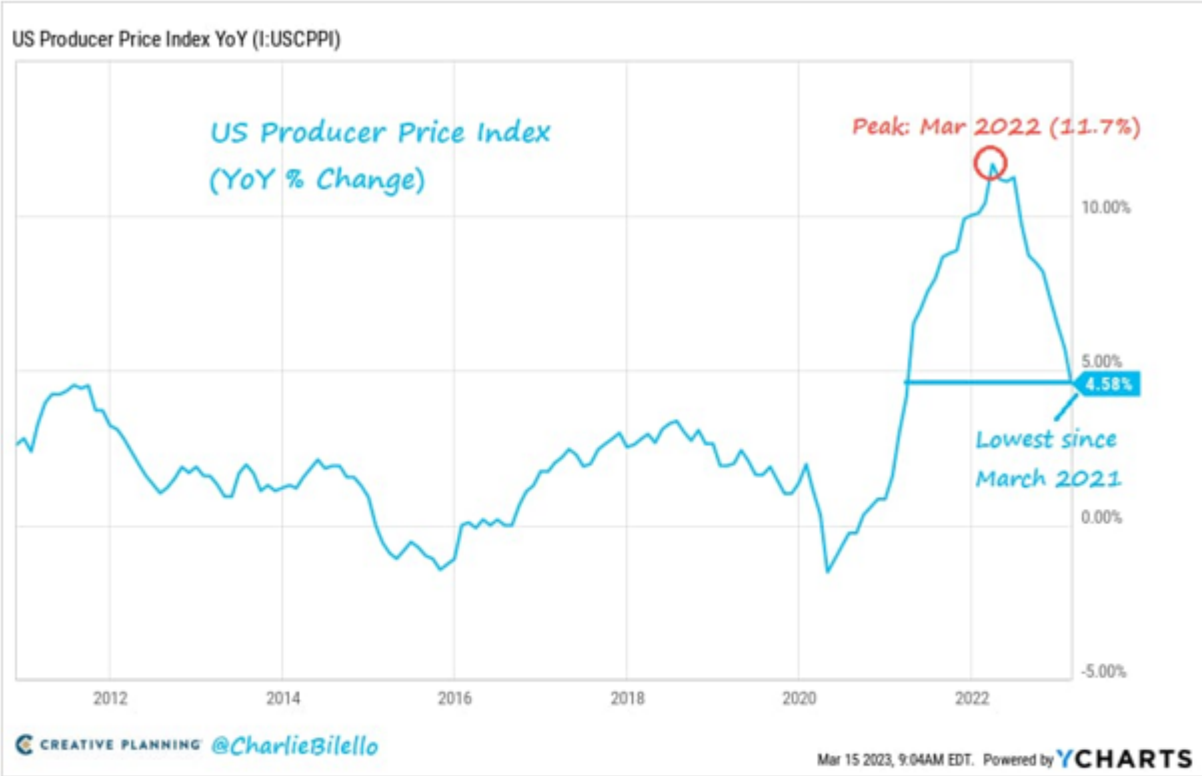
Have a look at the difference a year can make. These are American Statistics.

Most of the major CPI categories have shown significant improvement since the inflation peak last June with Shelter being the most notable exception.





Elsewhere on the inflation front, the data continues to improve. US Import prices were actually down 1% over the last year, the largest YoY decline since September 2020.



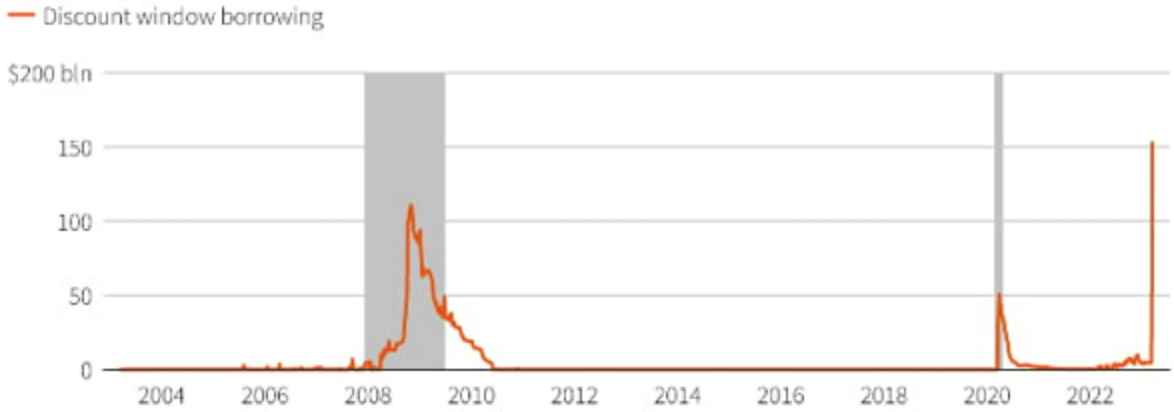
3) The "Fed Put" Is Back

A second reason to believe a pause by the Fed may be coming is the continued stress in the banking system.

The recent 28% two-week decline in the regional bank ETF ($KRE) was the second largest ever, trailing only March 2020 (covid crash). If we look at the other large declines in the table below, they were all associated with significant Fed easing measures.

Fed opens the emergency lending taps

A record of more than $150 billion was borrowed by banks from the Federal Reserve's 'discount window' this week after the collapses of Silicon Valley Bank and Signature Bank.

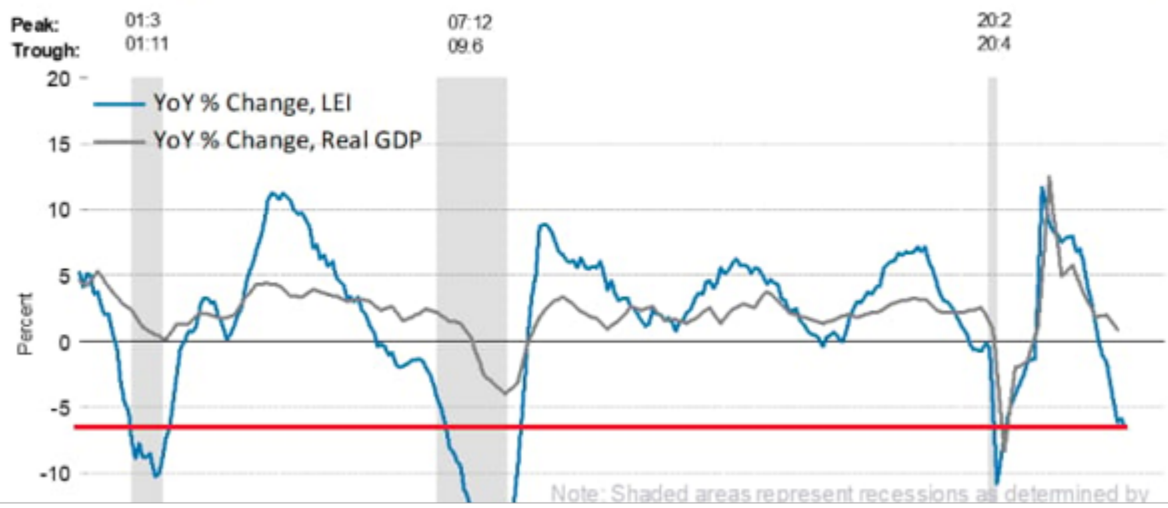


Note: Gray bands are recessions
Source: U.S. Federal Reserve

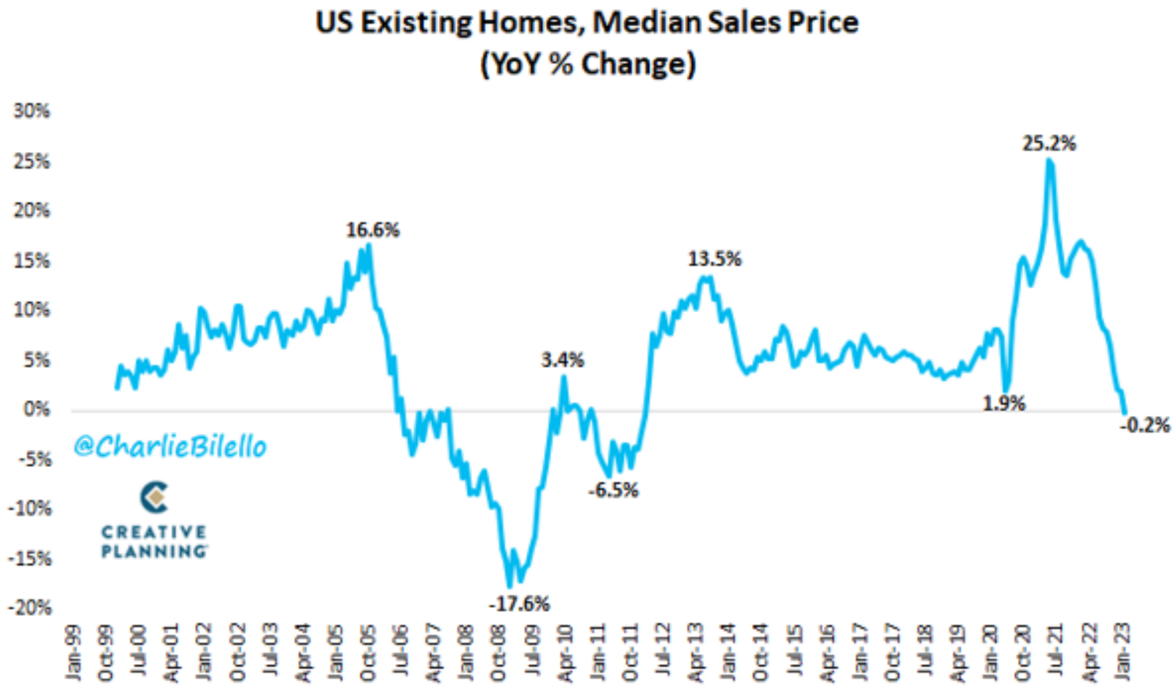
Reuters Graphics

The YoY growth rate in the Leading Economic Index fell further into negative territory in February and is at levels that have signaled a recession in the past (2020, 2008, and 2001)...

The annual growth rate of the US LEI continued to decline in February

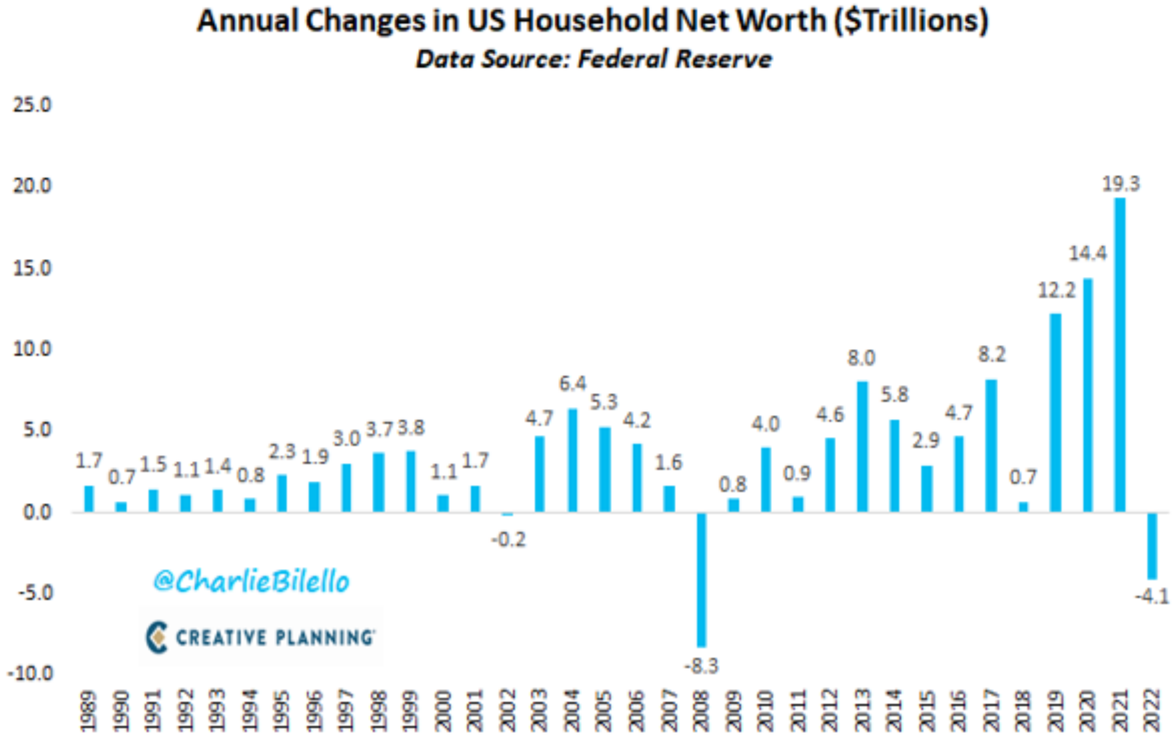


And the housing market downturn is evident everywhere you look, with the median price of an existing home turning negative on a YoY basis for the first time since 2012.



6) Deflation in Household Net Worth

The Net Worth of US households fell $4.1 trillion in 2022, the second largest decline on record after 2008. This not an insignificant drop, but what happened before 2022 is important to note. We had three consecutive years of record increases in net worth from 2019-2021, with home prices and stock prices surging higher. The cumulative increases in those three years: $45.9 trillion.



Nearly all commodity prices decreased the last 12 months …

Charlie Bilello @charliebilello · Mar 16

Commodity price changes over the last year...

Sugar: +10%
US CPI: +6.0%
Gold: +1%
Soybeans: -10%
Silver: -11%
Corn: -14%
Copper: -16%
Heating Oil: -16%
Gasoline: -18%
Coffee: -21%
Brent Crude: -24%
Zinc: -25%
WTI Crude: -29%
Wheat: -33%
Cotton: -34%
Natural Gas: -49%
Lumber: -58%

This is a huge difference from last March when nearly all commodities were up significantly and rising faster than the overall rate of inflation.

Compare this to 2022 below:

Charlie Bilello @charliebilello · Mar 19, 2022

Commodity price increases over the last year:

Nat Gas: +96%
Heating Oil: +89%
WTI Crude: +72%
Brent Crude +72%
Coffee: +69%
Wheat: +66%
Gasoline: +65%
Aluminum: +53%
Cotton: +48%
Corn: +36%
Soybeans: +20%
Lumber: +19%
Sugar: +19%
Copper: +15%
Gold: +11%
US CPI: +7.9%
Silver: -5%

World's top 10 busiest airports for passenger traffic in 2022

1. Hartsfield-Jackson Atlanta, Georgia (ATL): 93.7 million passengers; up 23.8% from 2021

2. Dallas/Fort Worth, Texas (DFW): 73.4 million passengers; up 17.5% from 2021

3. Denver, Colorado (DEN): 69.3 million passengers; up 17.8% from 2021

4. Chicago O'Hare, Illinois (ORD): 68.3 million passengers; up 26.5% from 2021

5. Dubai, United Arab Emirates (DXB): 66.1 million passengers; up 127% from 2021

6. Los Angeles, California (LAX): 65.9 million passengers; up 37.3% from 2021

7. Istanbul, Turkey (IST): 64.3 million passengers; up 73.8% from 2021

8. London Heathrow, United Kingdom (LHR): 61.6 million passengers; up 217.7% from 2021

9. Delhi, India (DEL): 59.5 million passengers; up 60.2% from 2021

10. Paris Charles de Gaulle, France (CDG): 57.5 million passengers; up 119.4% from 2021

14) OPEC Bump

Crude Oil prices jumped back above $80/barrel after OPEC announced it will be cutting output by 1.16 million barrels per day. Prices were as low as $65 just a few weeks ago. Even after the move higher, though, prices are still down 16% versus year-ago levels.

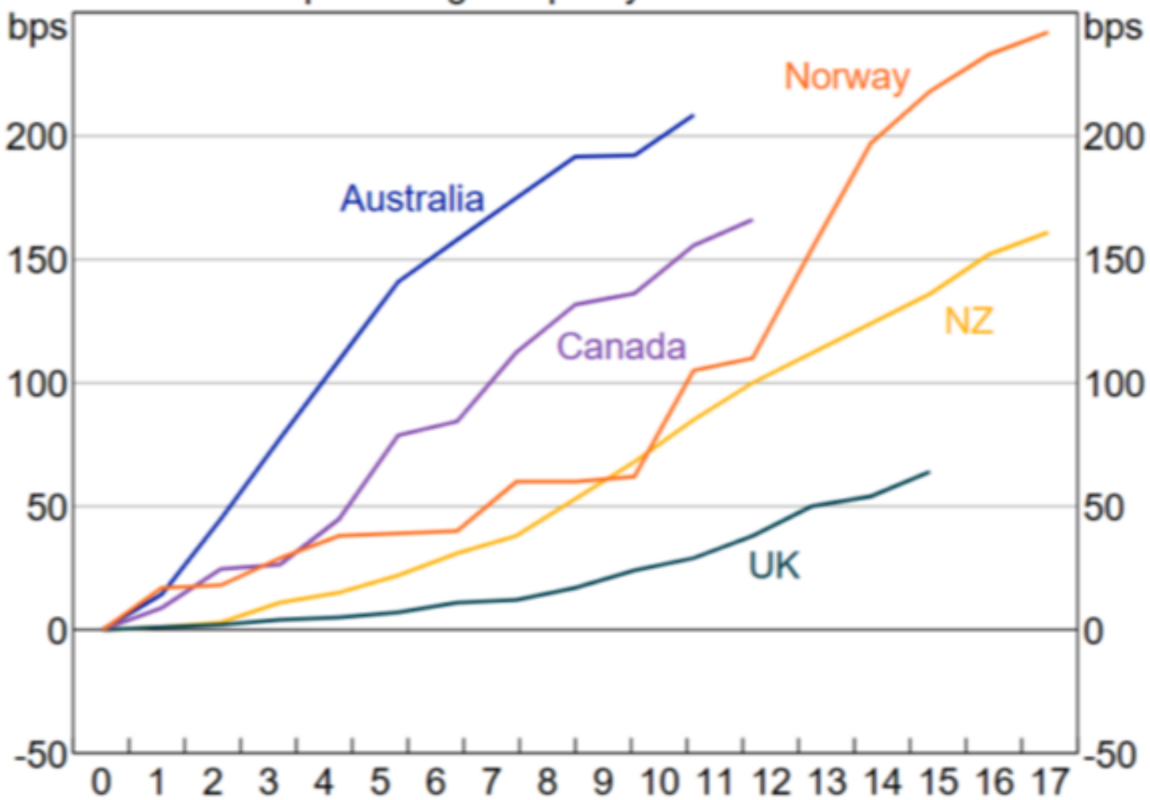
Freightos Baltic Index (FBX): Global Container Freight Index


Lumber
1M
Lumber (USD/1000 board feet) 387.50 +16.10 (+4.33%)
1500
1250
1000
750
500
387.50
250
2002
2006
2010
2014
2018
2022
1D
1W
1M
6M
1Y
5Y
10Y
25Y
All

This is what is headed towards Australian spending. This is money straight out of the spending ability of Australian households.

Changes in Outstanding Mortgage Rates*

Month preceding first policy rate increase = 0**



* Data for Canada and NZ to January, remainder to February.

** Cumulative basis point increase in the average outstanding mortgage rate relative to the month immediately preceding first policy rate increase since the onset of the pandemic.

Sources: APRA; central banks; RBA