

# Fed Watch: 75 - 75 ... 75/50? Key rate at 4% a given

Fortunately, Fed did not take financial markets by surprise and continues to tighten "only" (as in the previous month) at the fastest pace in decades with interest rate steps of 75 basis points. A hawkish stance — accepting economic setbacks — should continue to be the defining feature of the Fed. We therefore continue to see a key interest rate in the restrictive range of 4% over the next 6-9 months.

*Fed delivers at 75bp - without unsettling markets* **1**

*Disclaimer* **2**

*Analyst* **5**



## Fed delivers at 75bp - without unsettling markets

As expected, the US Federal Reserve raised the key interest rate yesterday by "only" **75 basis points** (key interest rate range 2.25 -2.50 %). The Fed has thus clearly indicated that — despite vigilance on the inflation front — it is currently convinced that it has **inflation dynamics still within its control**. A rate hike of **100bp** (as temporarily speculated on the market) would have been more of an **admission of weakness** (not to mention that the last 75bp hike last month was already the biggest rate hike in 30 years). Fortunately, there was unanimity in the FOMC, which limits market uncertainty. US yields and EUR/USD hardly reacted significantly to yesterday's rate decision.

Looking ahead, the Fed is keeping all options open, and **we continue to see a hawkish inflation-fighting bias** at the Fed at the expense of significant economic setbacks or a deliberate weakening of aggregate demand. Ultimately, if necessary, the response to the largest inflation spike since the 1980s should also be to pursue a monetary policy in the style of that era. Including yesterday's interest rate move, we are currently in the fastest monetary tightening in decades. In our view, yesterday's interest rate decision also confirms the assumption that the **Fed** wants to and **will move as quickly as possible** from a **neutral monetary policy** to a **restrictive monetary policy stance**. This could be achieved by the turn of the year or Q1 2023 at the latest. At the same time, we believe the Fed has also indicated that future interest rate steps will be very much data-driven, which can be understood as an indication — if necessary — to react flexibly with regard to the further pace of tightening. In this respect, we think that the Fed could moderately to noticeably reduce the pace of tightening later on in the restrictive monetary policy domain, depending on the economic situation. Until the next interest rate meeting on September 20/21, the decisive factor will be whether inflation data for the summer months indicate a certain stabilisation (data on economic momentum should be less relevant). If there are signs of inflation stabilisation, an interest rate step of 50bp is likely in September, otherwise a further increase of 75bp cannot be ruled out.

In light of yesterday's interest rate decision, we **maintain all our US interest rate forecasts**. We expect a US key interest rate (Fed band upper bound) of 3.50% or 4.00% (with an inverted yield curve) at the turn of the year or in Q1 2023.

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