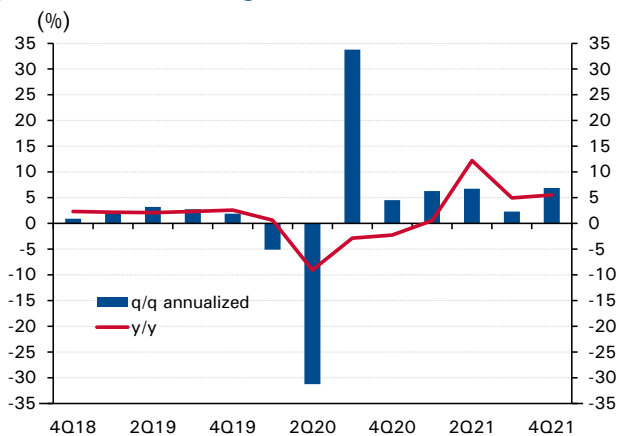


High inflation, strong growth set to trigger multiple Fed rate hikes in 2022

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- Growth accelerated to 6.9 q/q (annualized) in 4Q21 from 2.3% in 3Q21, recording 5.7% y/y for 2021.
- The unemployment rate edged up to 4.0% in January, little changed from December's near 2-year low (3.9%).
- Inflation rose to a 40-year high of 7.5% in January, on continued supply chain disruptions and strong demand.
- Retail sales growth (ex-autos) eased to a still strong 13.4% y/y in January on robust consumer spending.
- Futures market probabilities are now heavily skewed towards six or more policy rate hikes in 2022.
- The ISM manufacturing index edged down to 57.6 in January, continuing to expand on strong demand.
- The 10-year treasury yield surged to a 2.5-year high of 2.0% in February on rate hike prospects and QE tapering.
- The S&P500 fell 4.7% in February to the lowest level since October as Fed hawkishness dented sentiment.

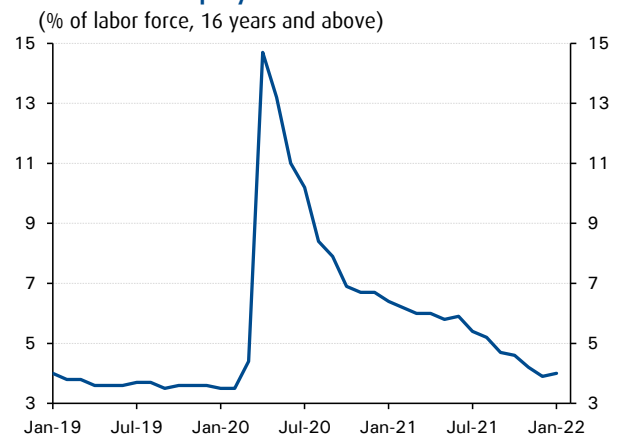
► Chart 1: Real GDP growth



Growth accelerated to 6.9 q/q (annualized) in 4Q21 from 2.3% in 3Q21, well above forecasts, recording 5.7% y/y for 2021.

Source: Refinitiv

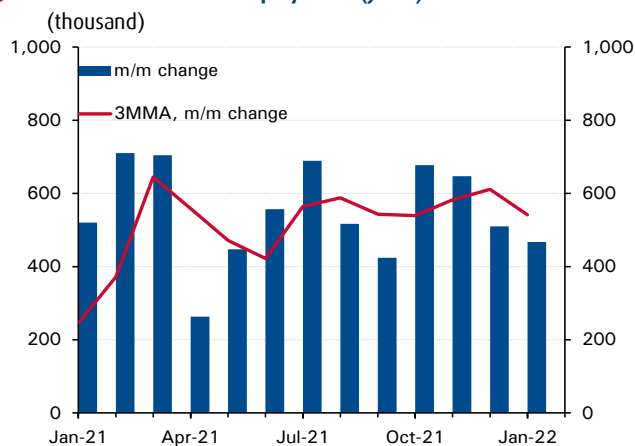
► Chart 2: Unemployment rate



The unemployment rate edged up to 4.0% in January, little changed from December's near 2-year low of 3.9%.

Source: Refinitiv

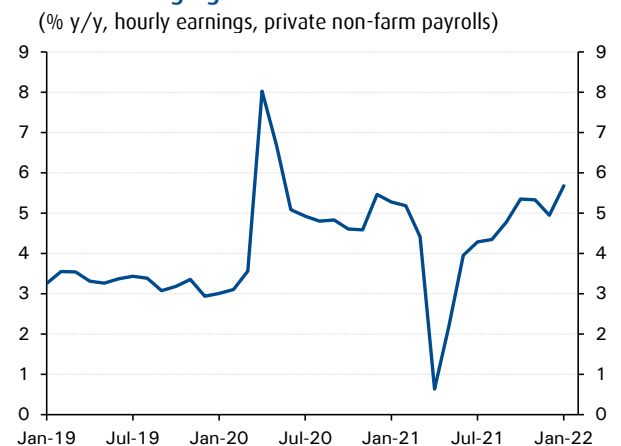
► Chart 3: Non-farm payrolls (jobs)



467k non-farm jobs were added in January, beating expectations of 150k mostly in the leisure and hospitality sector.

Source: Refinitiv

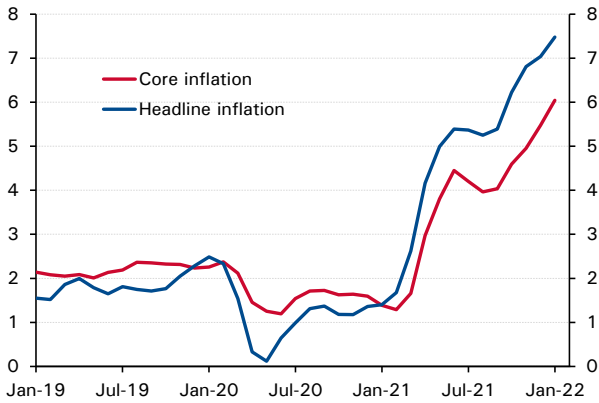
► Chart 4: Wage growth



Wage growth rose to a 20-month high of 5.7% y/y in January from 5.0% in December on continued labor market tightness.

Source: Refinitiv

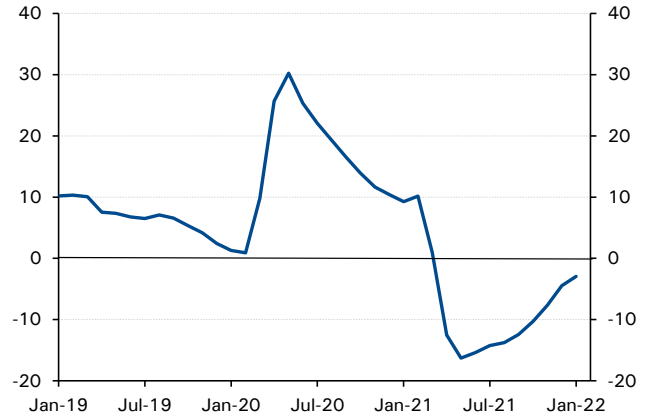
Chart 5: Consumer price inflation
(% y/y, CPI-U: All items)



Inflation accelerated to a 40-year high of 7.5% in January, on continued supply chain disruptions and strong demand.

Source: Refinitiv

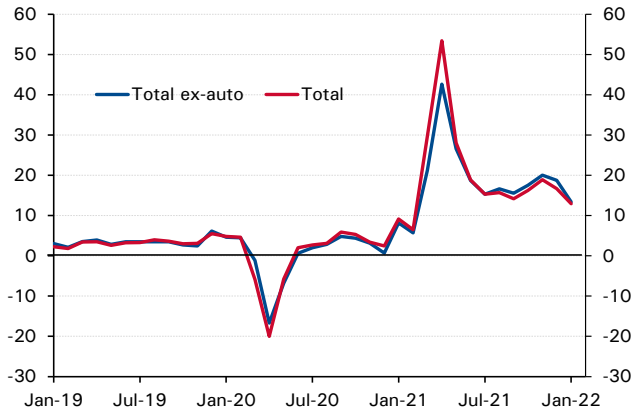
Chart 6: Commercial and industrial loans
(% y/y)



Annual growth in C&I loans remains in negative territory, although the contraction softened to -2.9% y/y in January.

Source: Refinitiv

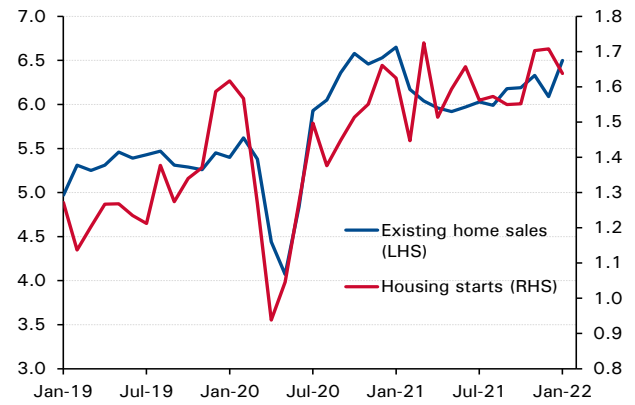
Chart 7: Retail sales
(% y/y)



Retail sales growth (ex-autos) eased to a still strong 13.4% y/y in January from 18.7% y/y in December on robust spending.

Source: Refinitiv

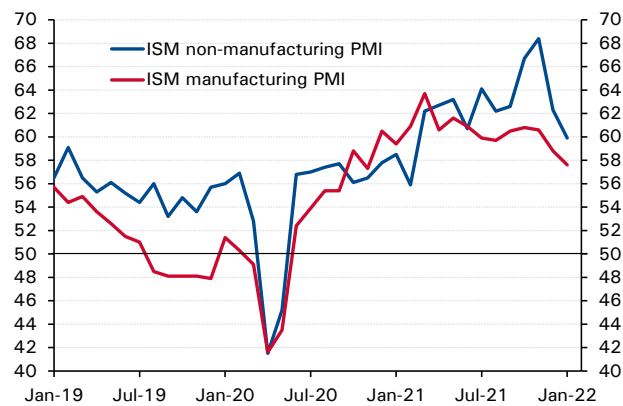
Chart 8: Existing home sales and housing starts
(million units)



Existing home sales rose 6.7% m/m to a 1-year high of 6.5 million units ahead of higher expected borrowing costs.

Source: Refinitiv

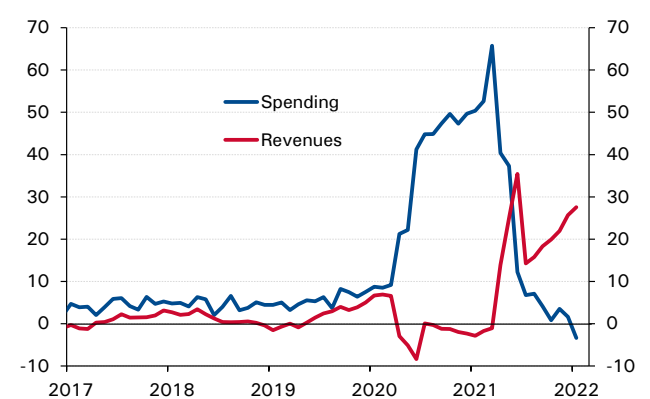
Chart 9: Business activity surveys
(index)



The ISM manufacturing index edged down to 57.6 in January, but maintained a strong pace of expansion on robust demand.

Source: Refinitiv

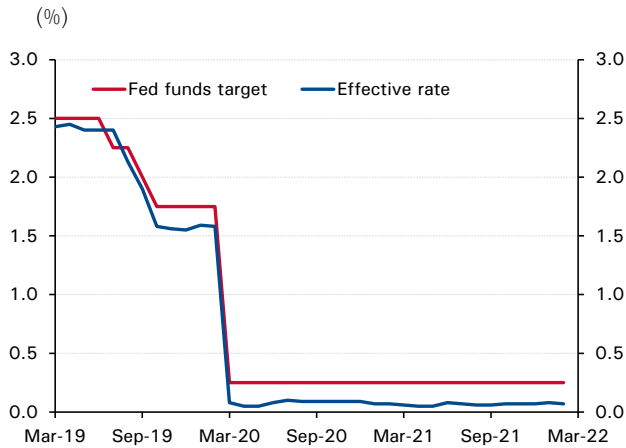
Chart 10: US government spending and revenues
(% y/y, 12-month cumulative total)



The 12-month fiscal deficit eased to \$2.3trn in January on higher revenues, lower spending; should narrow to \$1.2trn in FY22/23.

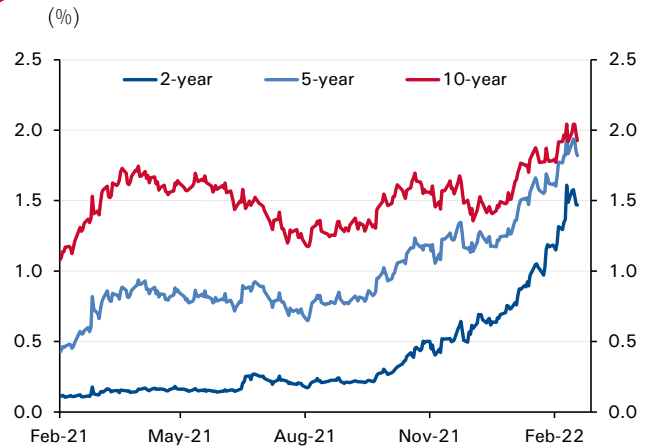
Source: Refinitiv

▶ **Chart 11: Policy interest rates**



The Fed kept its policy rate unchanged at 0-0.25%; will begin its tightening cycle in March with possibly seven rate hikes in 2022.
Source: Refinitiv

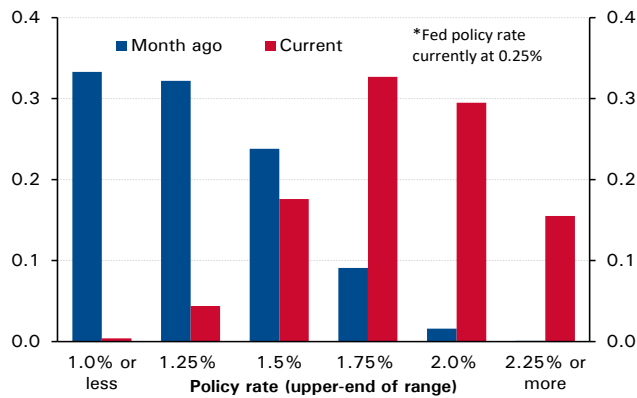
▶ **Chart 12: Government bond yields**



The 10-year treasury yield surged to a 2.5-year high of 2.0% in February, on higher inflation, rate hike expectations and QE tapering.
Source: Refinitiv

▶ **Chart 13: Fed policy action outlook for Dec. 2022**

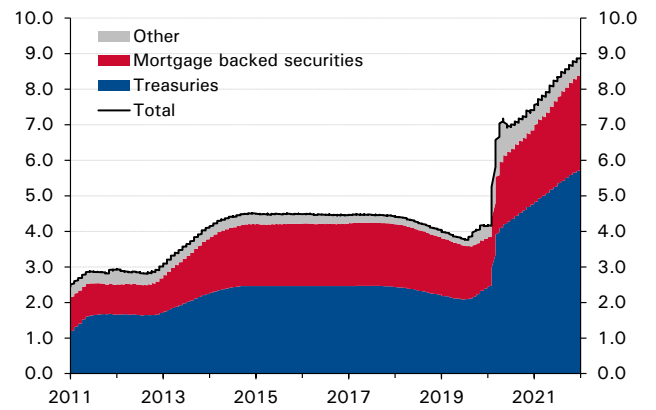
(futures market probability, as of 22 February 2022)



Futures market probabilities are now heavily skewed towards six or more policy rate hikes in 2022, with a likelihood of 78%.
Source: CME Group

▶ **Chart 14: Fed balance sheet size and composition**

(total assets, \$ trillion)



Federal Reserve assets increased at a notably slower pace amid QE tapering, reaching \$8.9 trillion as of mid- February.
Source: Refinitiv

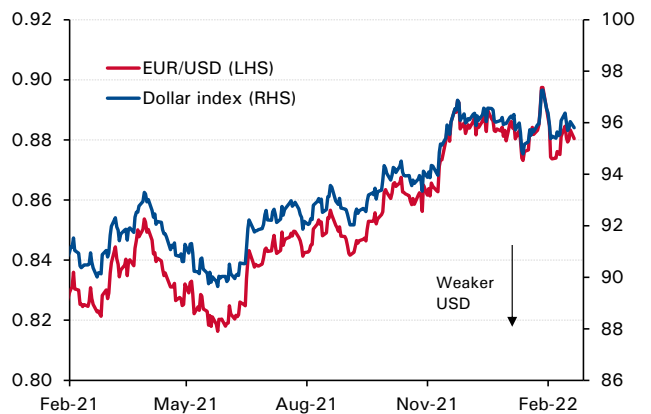
▶ **Chart 15: Stock market**

(S&P 500)



The S&P500 fell 4.7% in February to 4305 points (Feb 22), the lowest since October as Fed hawkishness dented sentiment.
Source: Refinitiv

▶ **Chart 16: Exchange rates**



The USD index was little changed in February, but could strengthen in coming months due to a more hawkish Fed.
Source: Refinitiv

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