



TheECONOMY

Delta Downer

Speaking at the Federal Reserve's August policy summit, Chair Jerome Powell said the U.S. central bank may begin tapering its monthly asset purchases by the end of the year as the economy continues to recover from the pandemic. Striking a cautiously optimistic tone, Powell reiterated that the Fed's framework for raising interest rates includes a "different and substantially more stringent test." This message was clearly received by the market, with a rate hike still not anticipated until early 2023.

Powell's comments regarding persistent signs of high inflation, normally a concern for the central bank, continue to deem the recent pressure as "transitory" by referencing moderating prices in categories sensitive to the speed and strength of the economic recovery and well contained long-term inflation expectations. Recent reports on inflation would back this to some degree, although tenuous supply chain constraints may continue well into next year.

The Delta variant of COVID-19 has shown signs of impacting consumer behavior, softening demand for services such as air travel, restaurant dining, and hotel reservations. Despite lingering inflation concerns, the labor market remains pivotal to the outlook for monetary policy. August's surprisingly weak non-farm payroll report, 235k actual vs 733k forecast, may have also been impacted by the alarming new level of virus cases and hospitalizations observed over the past few weeks.

Between non-farm payrolls still five million short of pre-pandemic levels, headwinds from the Delta variant weighing on economic growth, and the Fed's focus on closing racial and gender gaps in the labor market, it will likely be some time before any serious discussion regarding raising the Federal Funds Target Rate takes place.

Treasury Yields

MATURITY	9/7/21	8/6/21	CHANGE
3-Month	0.039%	0.043%	-0.004%
6-Month	0.036%	0.043%	-0.007%
1-Year	0.056%	0.066%	-0.010%
2-Year	0.220%	0.208%	0.012%
3-Year	0.423%	0.407%	0.016%
5-Year	0.822%	0.768%	0.054%
10-Year	1.373%	1.297%	0.076%
30-Year	1.987%	1.945%	0.042%

Source: Bloomberg

Agency Yields

MATURITY	9/7/21	8/6/21	CHANGE
3-Month	0.043%	0.049%	-0.005%
6-Month	0.052%	0.056%	-0.004%
1-Year	0.078%	0.077%	0.001%
2-Year	0.219%	0.208%	0.011%
3-Year	0.443%	0.412%	0.031%
5-Year	0.835%	0.794%	0.041%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	9/7/21	8/6/21	CHANGE
1-Month	0.080%	0.090%	-0.010%
3-Month	0.090%	0.090%	0.000%
6-Month	0.120%	0.130%	-0.010%
9-Month	0.150%	0.160%	-0.010%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '21	6.60%
US Unemployment	Aug '21	5.20%
ISM Manufacturing	Aug '21	59.90
PPI YoY	Aug '21	10.50%
CPI YoY	Aug '21	5.30%
Fed Funds Target	Sept 14, 2021	0.00% - 0.25%

Source: Bloomberg